

# Dynamic pricing for logistics industry



**Atos**

Dynamic pricing is not a new concept for business. Many service providers, especially companies in the airline and hospitality industries have pioneered this concept long back. Being a central component of revenue management, dynamic pricing helps organizations to provide competitive offers / quote to their customers effectively and efficiently by balancing their supply according to prevailing market demand. It is an art and science of price differentiation based on capacity utilization.

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# Introduction

The primary objective of dynamic pricing is to find the optimal pricing for various customers based on their volume of business commitment and the service provider's available space/payload capacity for a specified route. Carriers are constantly confronted with the fluctuating market, where the demand is uncertain; therefore, the price changes over time and varies for customers. The concept of dynamic pricing enables the carriers and service providers to charge optimal pricing based on market conditions.

For both passenger and cargo carriers (road, rail, air and ocean), the essence is effectively managing available space/payload capacity. But the cargo/freight transportation scope is wider and has a significant difference with the kind of cargo being transported. Documents, small packages, perishable goods, high-value items, containerized and bulk cargos, the industry

is heavily disorganized and the market dynamics are more volatile. As such, the dynamic pricing for cargo transportation and logistics is more complex to manage and implement.

The four main modes of transportation (road, rail, air and ocean) are dependent on four fundamental elements; shipper, carrier, intermediaries and the receiver. All these elements and the mode of transport have different characteristics. While the departure time and the destination of a truck (FTL & LTL) are dependent on its fill rate, the air cargo service and liner shipping have scheduled departure time and specific destinations. The ever-demanding need of customers, changing market dynamics, and peer competition is compelling the carriers and service providers to offer door-to-door deliveries and value-added services for their customers.

## Door-to-Door delivery

Unlike the carrier's port-to-port transport, the logistics companies provide door-to-door services from origin (door pickup) to destination (door delivery). This means the pricing has to include all the costs associated with the services and the freight charges. For a logistics service provider, the handling charges like palletization charges, documentation charges, warehouse charges, custom clearance charges, etc., are significant in terms of the overall cost when a door-to-door delivery is offered to a customer.

Online shopping offers customers the convenience of ordering products from the comfort of their homes. Since there are no limits on product dimensions, customers order large-size items like home appliances, sports equipment and mattresses. The logistics service providers were equipped to handle less weight/volume packages. The change in customer demands adds up to the complexities of door-to-door delivery. A lack of a uniform pricing mechanism causes heavy revenue leakages to the logistics service providers.

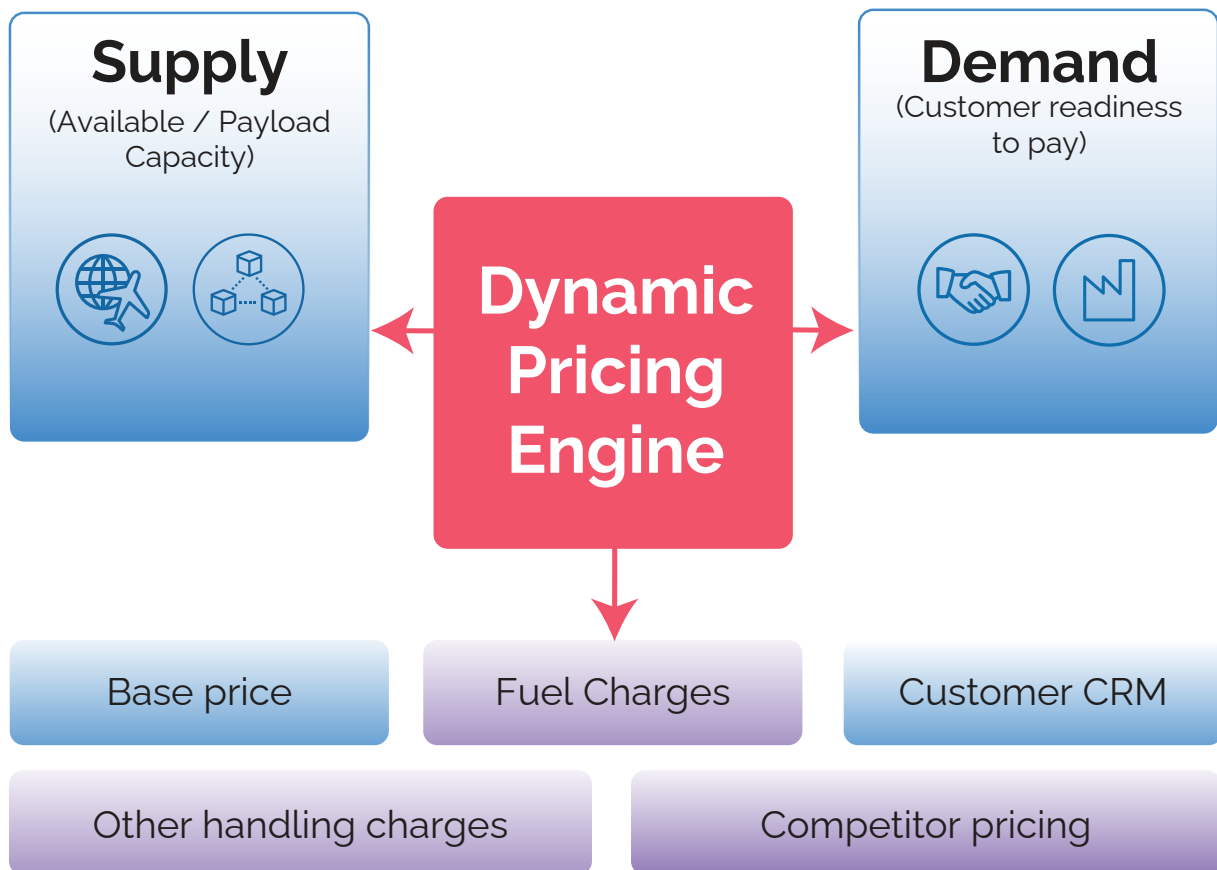
The service provider's rates and charges based on a shipping company's trade lane are static and get updated quarterly or monthly. This means the demand and supply are also aggregated monthly or quarterly and not on real-time fluctuations in the market resulting in revenue losses to logistics services providers. When a customer requests a quote, the sales or a customer service person depends on their pricing applications with static rates to respond to that request. The fuel surcharge, an essential component of the price offered to the customer, is calculated and adjusted weekly or monthly. Similarly, the impact on handling charges for door delivery is not reviewed and adjusted quite often. If the service provider has a mechanism to consider the real-time demand and supply of the market, that will help them to offer spot discounts if supply is more or charge premium if demand is high.



# Implementing dynamic pricing

Logistics companies that already operate on thin margins can immediately benefit from dynamic pricing. However, implementation needs a cultural change in the organization. All the stakeholders should agree and support the impact on the revenue management process, and this requires a deeper level of questioning, measuring and analyzing.

Integrating source systems and capturing demand and supply in real-time is essential for the dynamic pricing mechanism to succeed. The diagram below articulates the functional landscape to implement the solution.



Successful implementation of dynamic pricing provides a 360-degree view of customer's pricing, rating and billing. Identified process automation enable organizations to rely on a system driven process to create market relevant pricing, rather than depending on a manually driven spread sheet exercise. Including Artificial Intelligence and Machine Learning in the overall process will further enhance the revenue stream for logistics service providers.

Implementation of dynamic pricing will

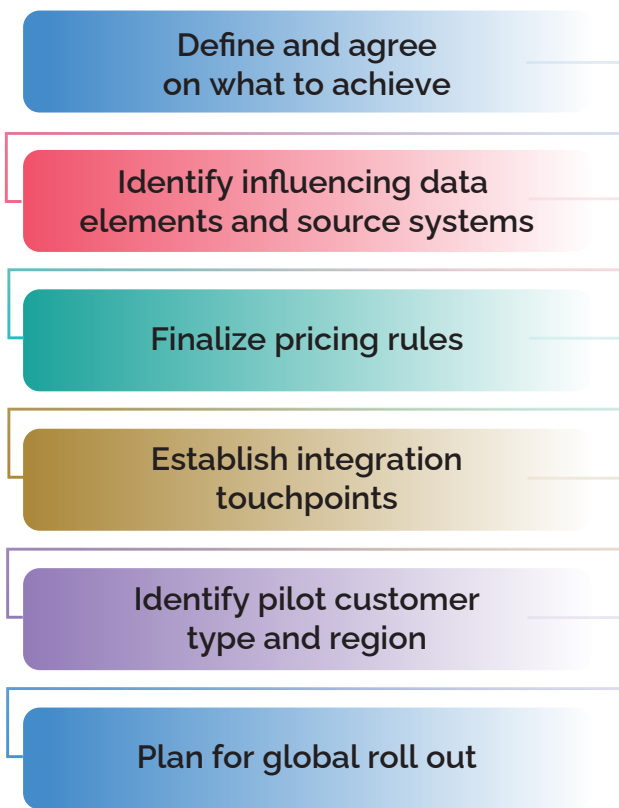
- Enable the service provider to offer the right price to the right customer at the right time
- Provide real-time information about market dynamics
- Facilitate better returns on deployed assets
- Automate the process to arrive at a competitive selling price



# The Atos advantage

Atos has extensive experience in implementing IT solutions for logistics companies. We work very closely with large logistics service providers to drive their transformation journey. Atos spearheaded the modernization of an end-to-end pricing and revenue application for a large logistics provider and helped them to roll out the application globally. We understand the pricing ecosystem very well and this expertise enabled us to create pricing-related portfolio offerings for our customers. Our logistics foundation service portfolio offerings helps customers to fast track their implementation and go-to-market.

A high-level journey map for implementation is given below:



Accomplishing following activities is necessary prior to implementing the dynamic pricing solution

- At the outset, get the internal alignment with all stakeholders and define the objectives
- Identify the core team with SMEs and impacted systems and processes
- Finally, decide on the region and type of customer you wanted to do the initial test run before rolling out globally

Managing this change with an inhouse team is a humongous task and demands huge time and effort from multiple teams and stakeholders. The suggested way forward would be to work with an experienced service provider like Atos.



# Dynamic pricing in action

## Premium and Discounted price for the unutilized capacity/space

Unutilized capacities/spaces, also known as spoilage, are lost opportunities for transportation and logistics companies. Implementing revenue management principles in the pricing and rating process helps logistics companies to earn more profit.

Suppose a truck can hold 12 tons of cargo but carries only 9 tons. Either the carrier can continue the trip with 9 tons of cargo with 3 tons of unutilized space or the service providers can reach out to potential customers with a discounted or a premium price depending on the market demand for utilizing the unused capacity. Similarly, if the capacity is underutilized for a return trip, service providers can offer competitive pricing for their customers. Dynamic pricing enables services providers to offer the competitive pricing on time.

Carriers always have reserved space for last-minute emergency shipments and will also have no-show bookings (booking cancellation, shipment reached after cut-off, insufficient documents for the shipments to carry). These unused spaces (spoilage) are lost opportunities. Dynamic pricing will help the service provider offer these unfilled spaces for a premium or a discounted rate depending on the market demand.

The technology advancement and the labor shortage in the logistics industry are changing the way how logistics service providers are serving their customers. Niche technology solution providers are replacing traditional service providers. Customers are looking for more agility and faster delivery commitments. The logistics service providers need to act fast to avoid the pricing and service impacts on their business. Atos has vast experience with domain and technology skills to implement transformation solutions for logistics companies. Our industry-focused portfolio offerings enable customers to accelerate their go-to-market strategies.



**Manoj Mannotty**

**- Author**

“ Manoj Mannotty serves Atos Resources & Services practice and presales team. He has more than 20 years of experience in IT transformation with global logistics, transportation and retail customers. Manoj is the subject matter expert for logistics, retail and multimodal transportation in Atos ”.

# About Atos

Atos is a global leader in digital transformation with 109,000 employees and annual revenue of c. € 11 billion. European number one in cybersecurity, cloud and high performance computing, the Group provides tailored end-to-end solutions for all industries in 71 countries. A pioneer in decarbonization services and products, Atos is committed to a secure and decarbonized digital for its clients. Atos is a SE (Societas Europaea), listed on Euronext Paris and included in the CAC 40 ESG and Next 20 Paris Stock indexes.

The purpose of Atos is to help design the future of the information space. Its expertise and services support the development of knowledge, education and research in a multicultural approach and contribute to the development of scientific and technological excellence. Across the world, the Group enables its customers and employees, and members of societies at large to live, work and develop sustainably, in a safe and secure information space.

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Let's start a discussion together



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