SEABURY

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Revenue Management in the Maritime industry

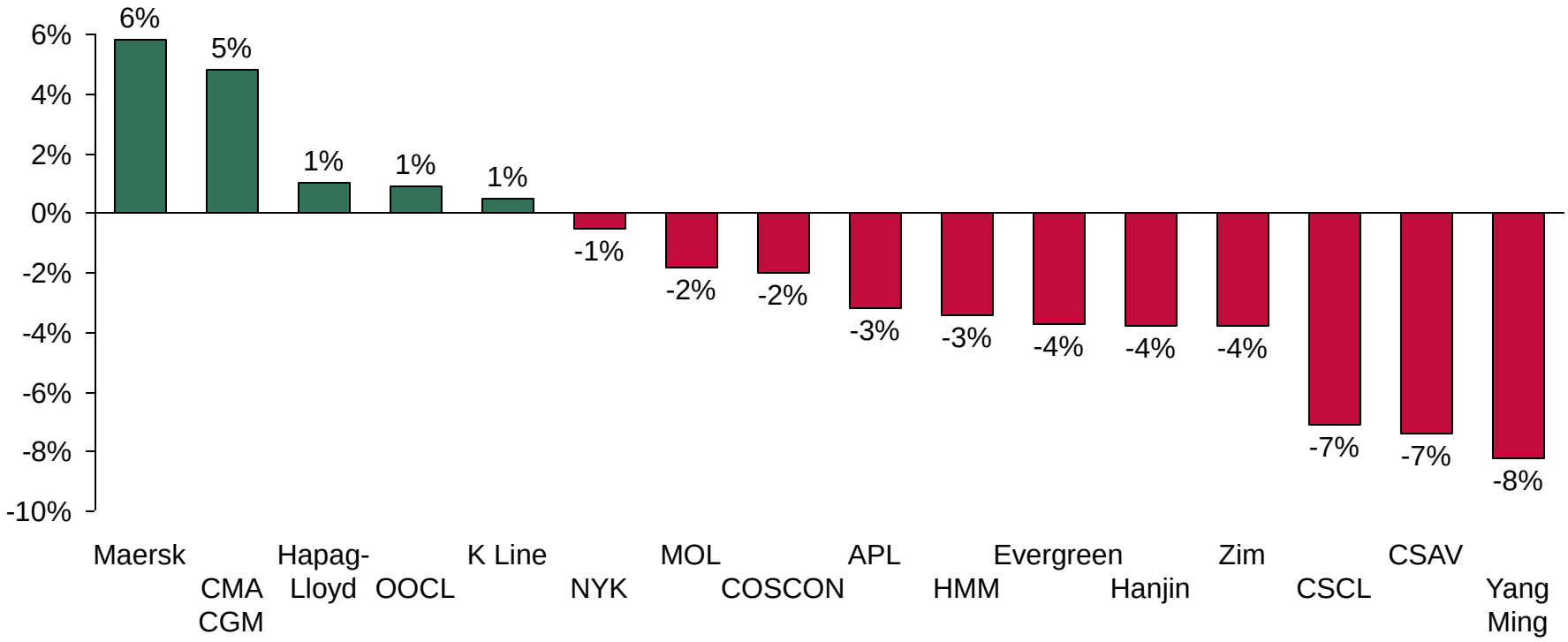
An opportunity?

Cost-cutting and capacity is the current focus of the industry

Buzzwords are overcapacity, increased vessel size, cascading, slow-steaming, alliances, cost cutting, etc.; does demand and revenue get the right level attention?

Operating margins of top-20 carriers[1], 2013

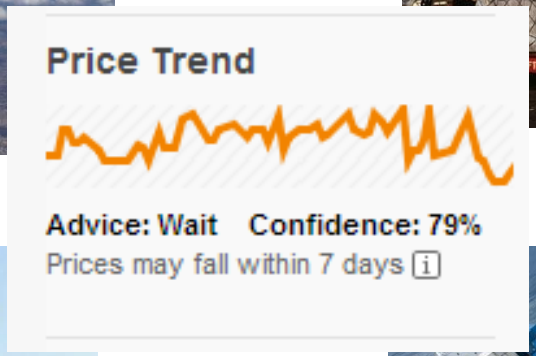
Operating margin, %



1) Source: Alphaliner Monthly Monitor, August 2014; Only includes carriers reporting financial results; Operating profit based on core EBIT, excluding non-recurring items where separately reported; "Top 20" by capacity, as of Aug 1, 2014

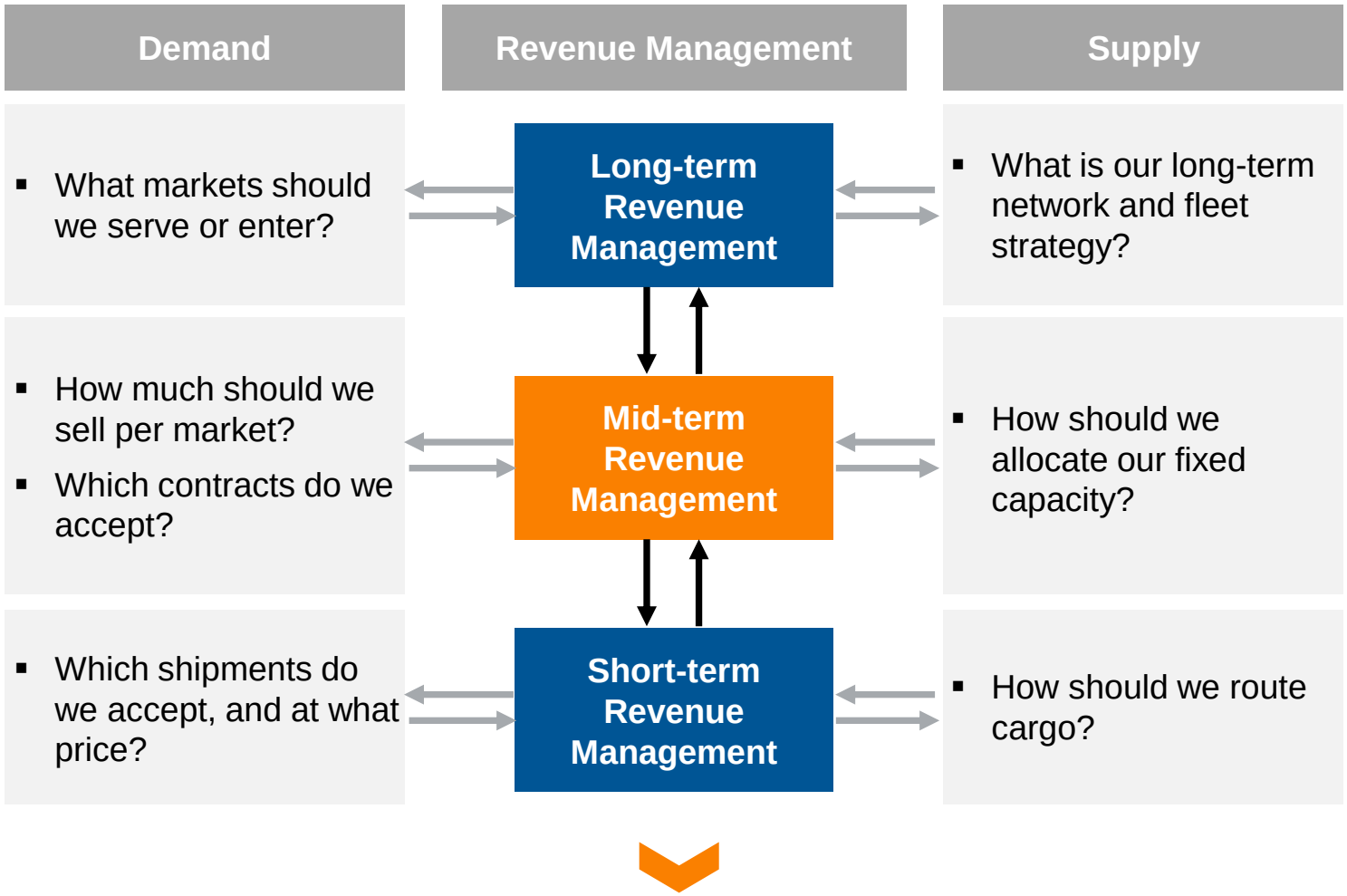
Let's talk "Revenue Management"

Revenue Management is more than the annoying airline department that changes our ticket price each time we go on-line…



What does “Revenue Management” address?

“Revenue Management” in its various stages addresses some of the most fundamental questions of supply and demand



We refer to “Revenue Management” as the art and science of balancing “demand” and “supply” with the purpose of optimizing network profitability

Who's talking?

With over 200 professionals, Seabury is the largest global advisory practice in aviation and aerospace, and a key provider of business intelligence to the container shipping industry

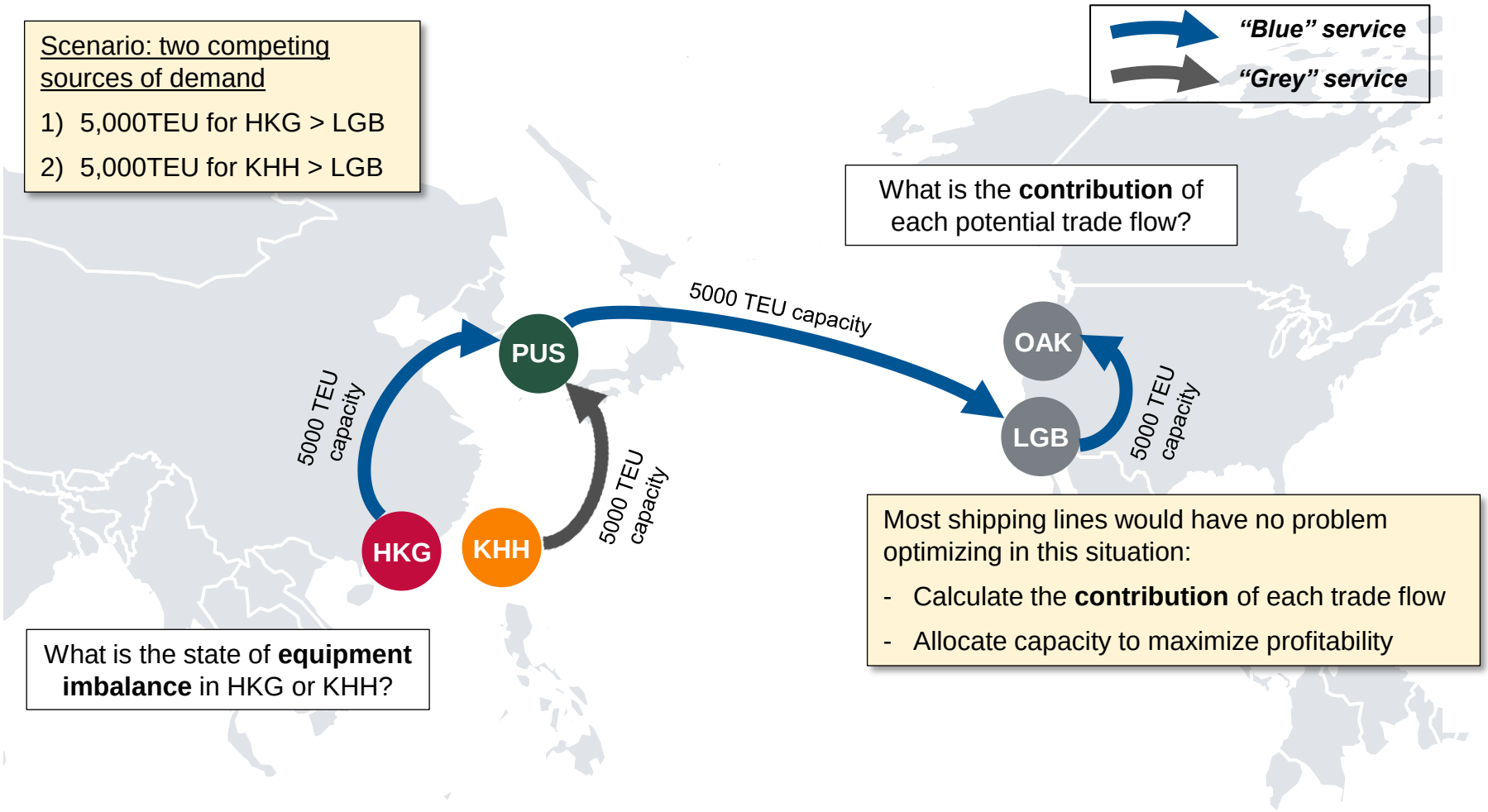
- Founded in 1995, Seabury provides management consulting, business intelligence, investment banking and corporate reorganization advisory services
- Seabury's cargo practice services many of the world's leading cargo airlines, shipping lines, ports, integrators, forwarders, and ports
- Seabury has a long track record in delivering revenue management solutions for passenger airlines and air cargo operators
- Air cargo allows for comparisons with container shipping, with similar operating models, low margins, high fixed costs, and overcapacity

Focus today will be on sharing insights on Revenue Management based on our experience in other industries, to see what could be applicable to shipping

Shipping lines perform RM to a certain degree…

Revenue management involves optimizing for profitability when multiple options compete for the same capacity; shipping lines are very familiar with doing this on a trade lane level

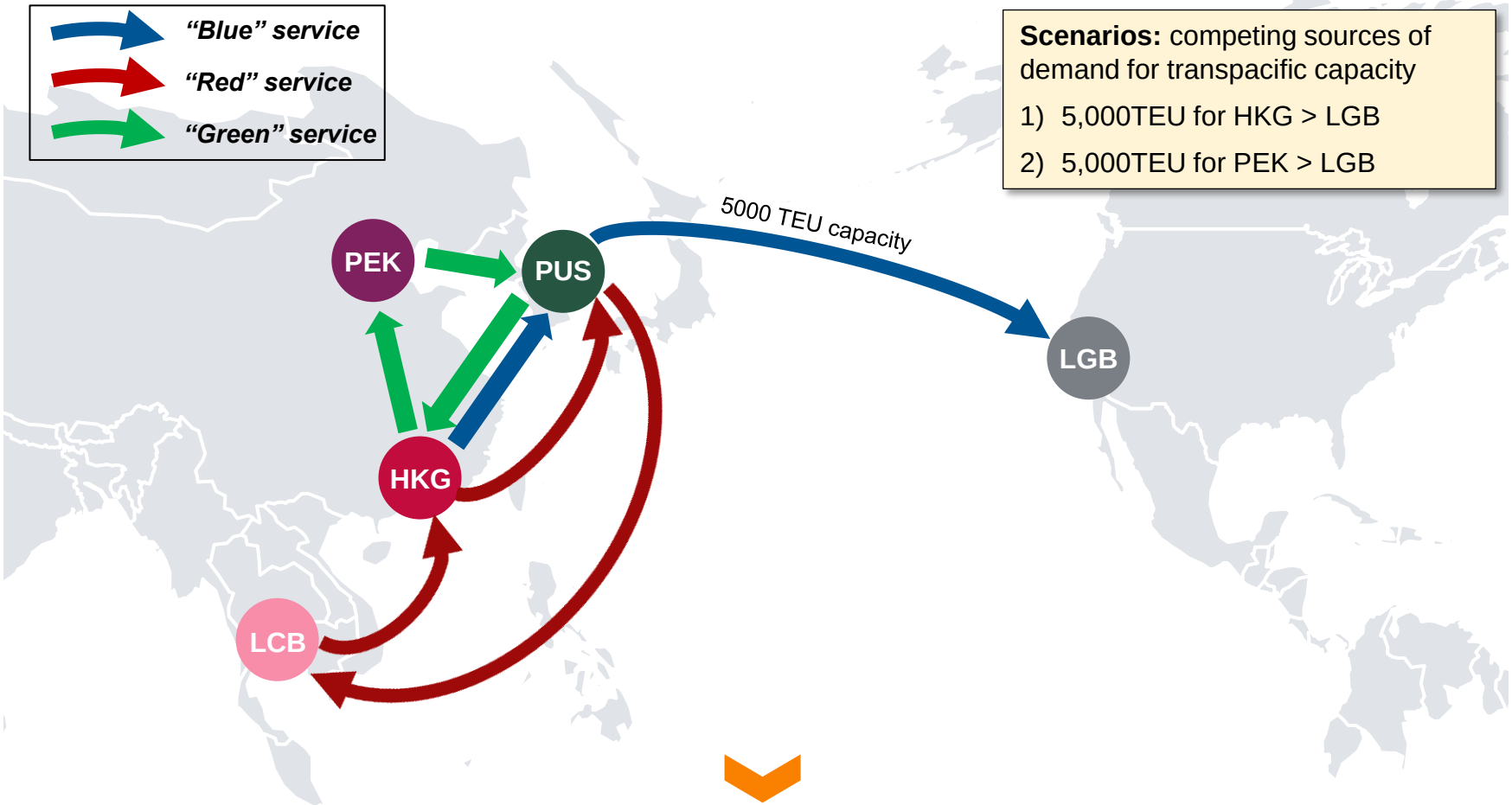
Theoretical example: how should we optimize this trade lane?



…but most do not optimize revenue across an entire network

Revenue Management becomes much more complicated when multiple services and trade lanes compete for the same capacity

How should we optimize this network?



Which cargo gets on board?

Observations about the current state of RM in shipping

Revenue Management practices vary between shipping lines, but in certain aspects there is consistency across the industry

1. Widely disparate levels of sophistication between different shipping lines in terms of level and complexity of optimization; all calculated profitability of a shipment with a varying degree of accuracy (e.g. empties repositioning)

2. Price and sales initiatives are commonly used as levers to balance supply and demand. Volume targets by port and/or country are commonly used as well – and may lead to sales initiatives

3. It is rare to adjust capacity allocations on an origin-destination basis to optimize for network profitability; for example, setting allocations at the expense of certain trade lanes or local offices for the benefit of other parts of the network

4. Optimization is primarily done at the trade lane level, with some additional refinement where trade lanes overlap; the degree of this multi-trade analysis varies by line

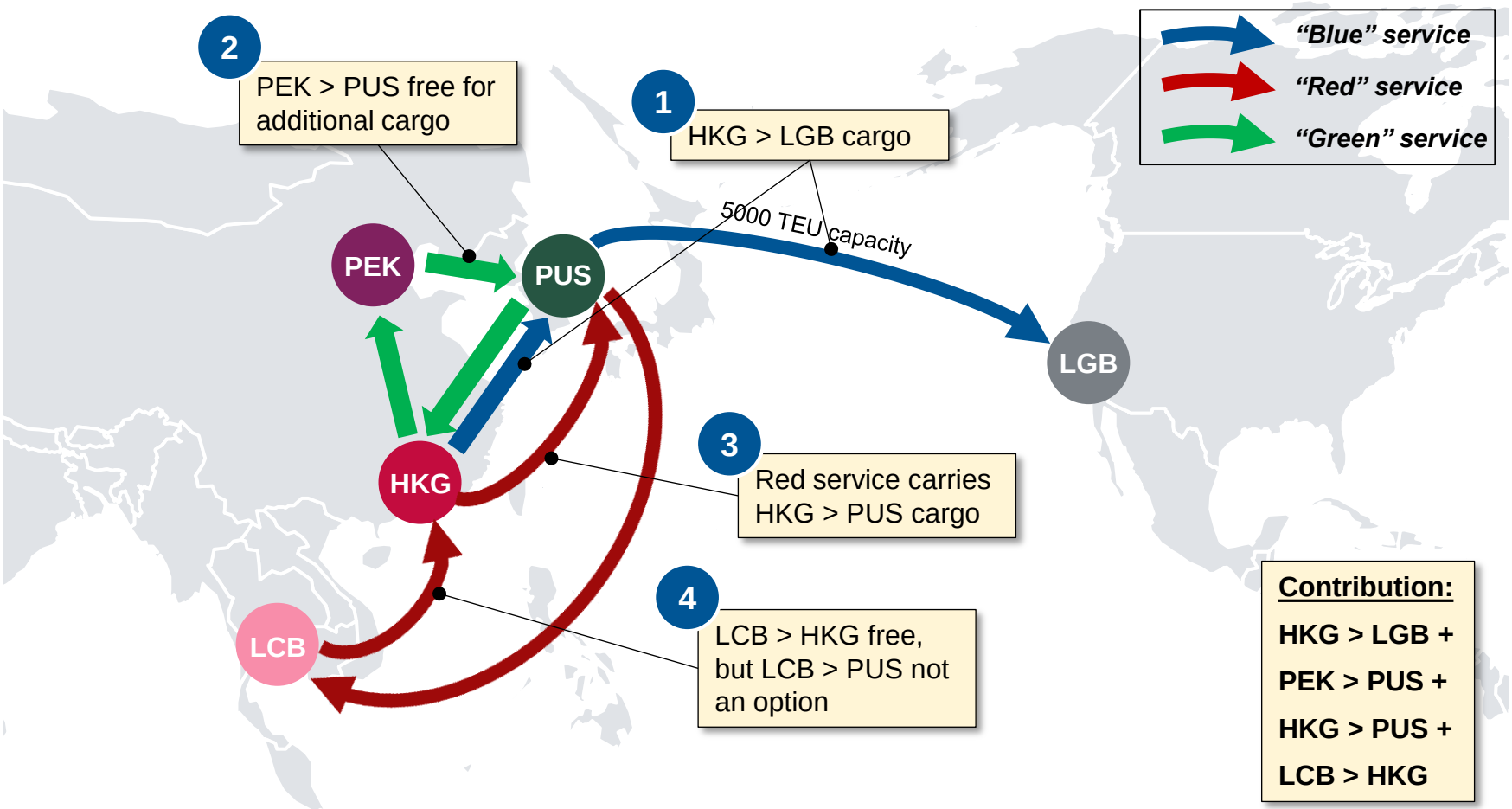
5. There are no 3rd party revenue management optimization software packages used in shipping; lines all use in-house developed systems

Optimization at a network level, using capacity allocation as a lever, is an untapped opportunity

Most carriers do not optimize revenue across an entire network

Commercial decisions on PUS > LGB have knock-on effects for other services and trade lanes

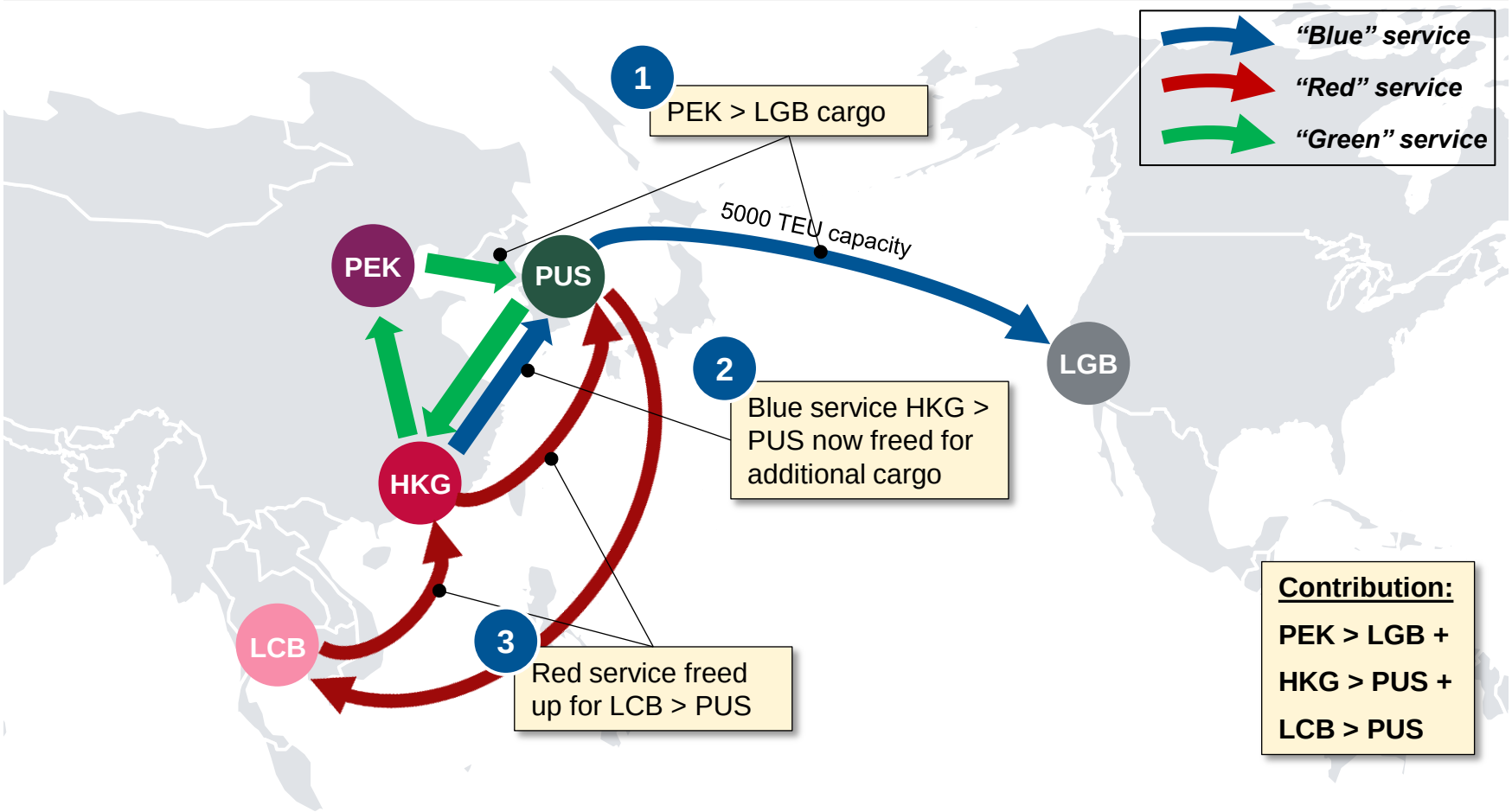
Potential outcome of Scenario 1: take HKG > LGB



Most carriers do not optimize revenue across an entire network

Commercial decisions on PUS > LGB have knock-on effects for other services and trade lanes

Potential outcome of Scenario 2: take PEK > LGB



Scenario comparison

Achieving the optimal outcome involves weighing all of the knock-on effects; the highest yielding cargo on the longer trade lanes does may not yield the best network outcome

Scenario 1: contributing legs

- HKG > LGB
- PEK > PUS
- HKG > PUS
- LCB > HKG

Scenario 2 contributing legs

- PEK > LGB
- LCB > PUS
- HKG > PUS

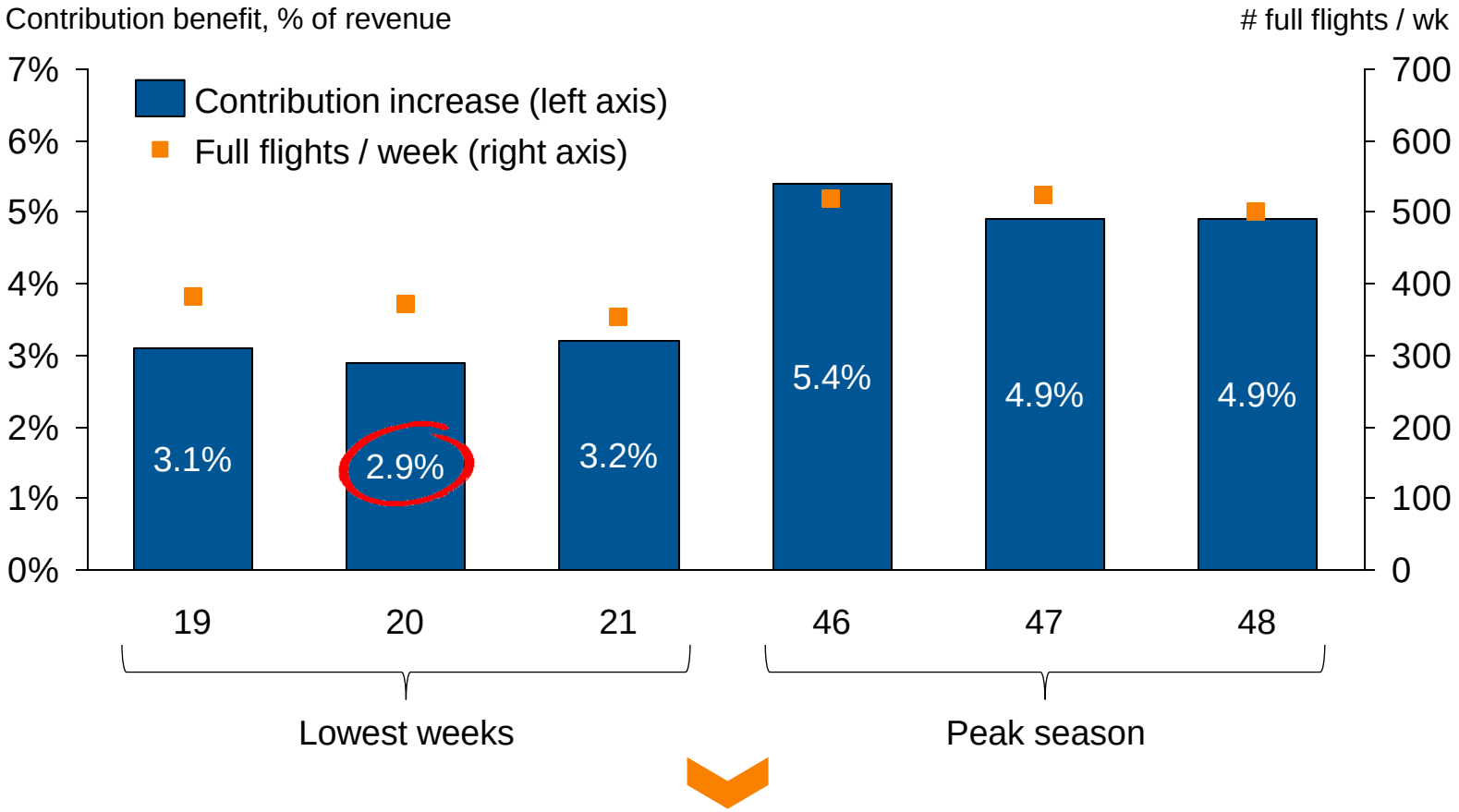
Same legs – no contribution difference

….and of course a real network is much more complicated, with many more knock-on effects for each commercial decision

Case study: Significant upside from Revenue Management

Seabury tested a revenue management implementation over peak season and low months; contribution as % of revenue increased at least 2.9% per week

Contribution upside from RM



The large scale of container shipping revenues makes the potential rewards of even a 1% improvement huge – $70M+ for a top-10 carrier, for example

Key considerations in implementing Revenue Management

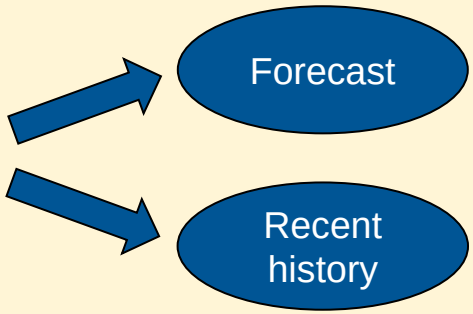
Revenue management is not an off-the shelf IT system; there are many key decisions that one needs to make when designing a revenue management system

1

Data management: do our methodologies for allocating the cost of empty containers and transshipments allow us to understand the *network* impact of commercial decisions?

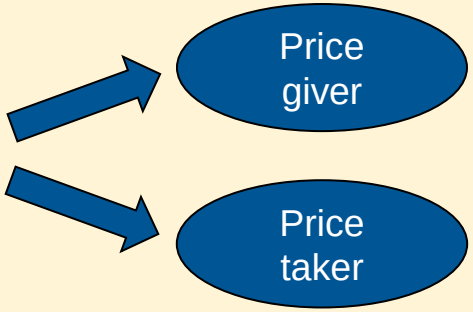
2

Anticipating demand



3

Role of RM department



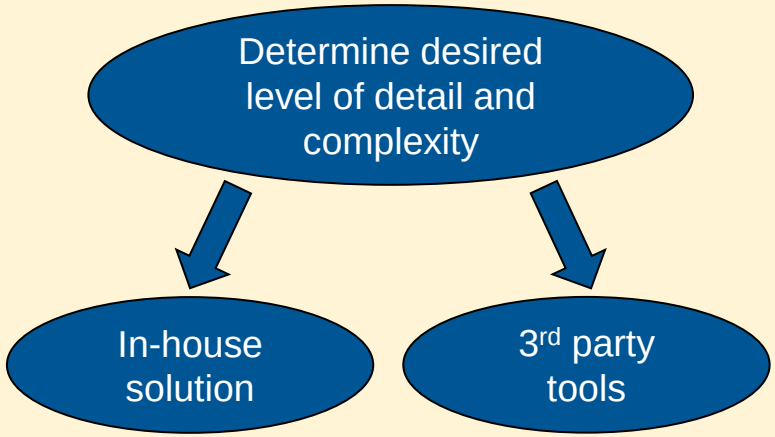
4

Organizational considerations:

- Balancing considerations at the sales office, trade lane, and network level
- Devoting resources to analysis and RM management. Who does the analysis?

5

Tools: what type of tools do I need to optimise for network profitability?



Conclusions

1. There is opportunity for shipping lines to employ more advanced revenue management techniques to improve profitability – potentially improving margins up to several percentage points

2. In particular, there is significant value in optimizing network contribution through adjusting volume allocations on an origin/destination basis.

3. A wide range of sophistication exists between companies in both shipping and other industries. There is room for improvement in the industry, even for the most advanced companies

4. Implementing a new Revenue Management system is not simply about implementing a software package. A wide range of considerations need to be taken into account – organizational, technical, and strategic

Revenue Management best practice

Companies consistently over-invest in Revenue Management IT systems and under-invest in people and processes

> "*Revenue management is not a computer system. It is an integrated set of business processes that brings together people and systems with the goal of understanding the market, anticipating customer behavior, and responding quickly to exploit opportunities that present themselves.*"
>
> – Robert Cross
>
> *Revenue Management expert and author*

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