XENETA

CASE STUDY | ELECTROLUX

# Electrolux uses Xeneta to gain full transparency into ocean container rates

## The Challenge

### Container Pricing Process - Historical Perspective

As the industry has evolved, for many companies the cost of the shipping container is often handled by their broker and/or quoted as part of the total price of the shipment, if they have not directly contracted with a container company. Given the nature of an international pricing market, the challenge for international shippers is gaining the visibility to understand how their quotes compare to rates received by other companies. Getting a price quote is not the issue, understanding the best rates for a given lane is the question. We asked this question to Bjorn Vang Jensen, the Vice President of Global Logistics for Electrolux, who explained that without complete transparency to pricing on an open market exchange, the only way to get a real assessment has been to benchmark against other companies who provide information on their contract rates as part of a benchmarking "club" (as he identified them) exercise. Historically, this was done against static historical data available only a few times each year. Being actively engaged in managing their container pricing, he found that his company usually graded out to be "at or near the top" against all companies involved in the benchmarking "club" that participated in the process.

Electrolux is a $19-$20 Billion company that manufactures and supplies home appliances to major retailers worldwide. Their flow of products come from low cost countries, to their factories for manufacturing, and then to the major retailers worldwide. Although their top line has been relatively unchanged for the last 10 years, their global shipping containers have increased over twenty fold from approximately 8,000+ containers per year to close to 180,000, which Mr. Vang Jensen, attributed to the real impact of globalization. In order to remain competitive as a global company, their supply base for components and raw materials have shifted to countries with lower costs, and their major customers have expanded into new markets, further increasing their international shipping volume. Their annual ocean freight spend is currently down about 25%-30% year-over-year with the recent collapse of container pricing rates in the first half of 2016, resulting from an over capacity condition that has dropped rates as much as 25%.

Container costs alone represent approximately 10% of their total Electrolux logistics costs, but they could easily be higher if it were not for the constant vigilance and benchmarking efforts of Mr. Vang Jensen and his team.

## The Solution

### The Future

Even though Electrolux is in one of the top positions due to their past benchmarking practices, Mr. Vang Jensen was quick to point out the inherent weakness underlying the use of static data. He was also quite optimistic in sharing the recent entry in to the market by Xeneta, an online real-time benchmarking exchange solution allowing companies to input their rates and compare them against current contracts in relation to the high, low and average contract pricing. It also allows companies to model on a "what if" basis to understand their potential savings from leveraging pricing opportunities. The solution presents long and short term contracts across over 60,000 different port-to-port combinations.

The value of having real-time pricing information allows companies to compare rates when conditions change. Electrolux has about 30% of their container requirements come from demand that is incremental to their annual contracts as a result of new products, supplier changes, new customers, and other circumstances that might drive changes in their container demand. Being able to benchmark these incremental changes as they occur enables a strong competitive pricing profile. Mr. Vang Jensen pointed out that an exchange solution like Xeneta presents unrecognized savings opportunities even for companies like Electrolux who are on top of their rates.

Mr. Vang Jensen made it clear that "The value of benchmarking with Xeneta does two things that are extremely valuable as part of the benchmarking process. First, it identifies any situation where they might be leaving money on the table, and secondly, it acts as confirmation of the strength of their position compared to the current market. Xeneta's presentation of the data and drill down capability make the solution easy to use for shippers at all volume levels because it provides a dynamic snapshot of the market at any point in time.” Xeneta helps shippers by showing them actual pricing, which they have never had before, so they can use when negotiating their rates.

## The Benefit of Using the Xeneta Solution for All Companies

When asked if there was a minimum amount of container spend that companies might need before they would see a real advantage, the response from Mr. Vang Jensen was that “Anyone with container usage anywhere in the range of 75,000 and up per year should be negotiating their container pricing directly. But companies of any size, even small shippers at the 2,000-3,000 containers per year volume level, can take advantage of the benchmarking information provided to use in their negotiations with their brokers or partners.”

There are also tiers for container usage that heavily influence contract rates and availability (not a current concern in the overcapacity market). Electrolux has a healthy volume at 180,000 teus (twenty foot equivalent units) annually, but there are other shippers, such as automotive and consumer electronics companies, that are typically in the range of 300,000 – 500,000 per year. Some of the largest retailers may reach 500,000 to over 1 million containers per year. Knowledge of existing contract rates is invaluable at the negotiating table, whether dealing directly with container suppliers or dealing with brokers and forwarders.

## Data Enables Informed Decisions in Ocean Freight Market

Xeneta is a new approach to the benchmarking process and provides an on-line, real-time exchange view of existing contract pricing and how it compares to the market. It indicates the average, high and low rates, by contract type, for a given lane, in order to provide feedback and highlight where opportunities for improvement exist. All companies, need to know where they stand on their container pricing lest they give up the hard earned savings they may have gained through their global sourcing and trade management capabilities. Whether a company has the volume to negotiate directly with container providers or work through their brokers and forwarders, knowledge of existing market prices will certainly help companies drive their container costs down.