Get Off Your Diagonal

David Jacoby

Everything costs money, so there are no “bargains.” You get what you pay for. If you want to get something cheap, you can. The trick is to get something that is uniquely valuable to your operation for the price of a commodity service.

Take, for example, passenger airline tickets. If you travel a lot, you’ll know what I mean. You can buy a coach class ticket from New York to London for $3,000. You can also find it for $1,000, or less. Should you buy the one for $500? Wait a minute. Do you want to spend 11 hours for the trip and spend five hours connecting through three airports? If you connect in a major airport like Dubai or Washington-Dulles, do you care if you need to pack into a crowded bus and shuttle to a remote airplane parking lot? Are you small enough to fit comfortably in a 20 cm-wide seat, and how small are your legs? Did you really expect any food or entertainment? And how much did you really want your luggage in London anyway? You get what you pay for if you stay “on the diagonal” - the price to service ratio of common tradeoffs.

The trick is to get “off the diagonal” - to get more than what you pay for. For example, if you could get a Business Class seat for the price of an Economy class ticket, or if you could get a direct flight for the same as the price of a flight of a connection. In our logistics world, this would be like getting a two-day transit time for the price that most carriers charge to deliver in a week, or a dedicated inside service representative at no added cost. Or like completely eliminating queues at the port and saving drayage and handling cost. Or getting an in-house team and a customized punch-through order management portal in your ERP or transportation management system without paying for it. Or getting tracking that reduces late claims and RFID sensors that reduce loss, damage, and theft in transit.

However, in order to get off the standard price: service curve, you need two pieces that are not readily available: 1) what should the target service profile be?, and 2) what should the price be for that service? That can take some creativity, and perhaps an outside expert’s point of view. It needs to be based on your own situation, on the best practice in the industry today, and also on what your suppliers could do better but they just aren’t doing yet because nobody has ever driven them to that level of excellence before.

Boston Strategies International’s consulting projects routinely help to define world-class service profiles and figure out what they should cost. For example, we are helping to design a best-in-world e-commerce architecture that will help our client achieve a competitive advantage through e-business. We also use a proprietary “should-cost” model to figure out what the price should be in the absence of excess supplier profit, over-engineering, diseconomies of scale, diseconomies of scope, and wasted coordination effort. The result of such benchmarking, vision, and analysis is a “right-sizing” of your supply chain relationships so your suppliers add value and cut costs, putting you in a better spot on the value: price curve, and helping you to differentiate your service through better logistics than your competitors can offer.

If you want a competitive advantage from supply chain management, get off the diagonal with help from Boston Strategies International.

The Cost of Cutting Costs “on the Diagonal”

USD/Ticket or Container	$3,000	$2,000	$2,000	$1,500	$1,000	$500
Passenger Airline Ticket, NY-London						
Total Trip Hours	6	7	8	9	10	11
Connections	0	1	1	2	2	3
Hours of layover	0	1	2	3	4	5
Transfers	0	Same plane	Next gate	Change terminal	Off-Airport	Change airport
Seat size (cm)	40	36	32	28	24	20
Legroom (cm)	40	36	32	28	24	20
Food and Drinks	2 premium meals, premium drinks	2 meals with drinks for sale	1 meal, snack	1 meal, snack for sale	1 snack	None
Entertainment	Personal screen, on-demand, new hits	Personal screen, on-demand, old movies	Personal screen, programmed entertainment	Central screen, 1 movie	Central screen, no movie	No entertainment
Lost luggage rate	**0%**	**10%**	**20%**	**30%**	**40%**	**50%**
Intermodal Service, New York-Los Angeles						
Transit Time (days)	2	3	4	5	6	7
Connections	0	1	2	3	4	5
Hours of Queue	0	1	2	3	4	5
Miles of drayage	0	20	40	60	80	100
Order Management	Punch-through	Custom web portal	Online track & trace	Online trace	Phone	Web chat
Customer Service	Dedicated, in-house	Dedicated, offsite	Account Rep	Internet-based	Phone-based	Web chat
Claims Rate	**0%**	**2%**	**4%**	**6%**	**8%**	**10%**

Source: Author.

David Jacoby is the President of Boston Strategies International Inc, a consulting firm that offers consulting services, data products, and IT solutions that help manufacturers and their supply chain partners achieve best in class supply chain performance. To contact Mr. Jacoby or the firm, please call (1) (781) 250-8150 or e-mail info@bostonstrategies.com.