



INDEPENDENT FREIGHT FORWARDING IN GLOBAL LOGISTICS

THE STATE OF THE INDUSTRY IN 2016 AND FUTURE PROSPECTS

PRELIMINARY FINDINGS: JUNE 2016

WFA BEST IN CLASS INDEPENDENT FREIGHT FORWARDING NETWORK

EXECUTIVE SUMMARY

Independent Freight Forwarding in Global Logistics

A strong independent freight forwarding sector is vital to Global Logistics

Introduction:

The Global Institute of Logistics “Independent Freight Forwarding in Global Logistics” report has come about in response to the increasing trend by Beneficial Cargo Owners (BCO’s) to outsource the management of their container traffic to independent freight forwarders.

The independent freight forwarding sector is now more vibrant and successful than ever, despite the global economic woes of the past few years. The rise of the independent agent has now been borne out by a whole range of statistics and data that prove that far from shrinking, the independents are growing faster and taking market share from the multinationals.

Latest figures from Drewry show that 41 per cent of all ocean freight is now controlled by 3PLs or forwarders and by the end of the decade analysts are predicting that the market share will rise to 50 per cent – a remarkable switch in business practice by BCO’s over the past two decades. 20 years ago some 75 per cent of all sea freight volumes were booked directly with carriers.

Even more remarkable is that it is independent freight forwarders and not multinational 3PL’s are expected to make up the lion’s share of this total at some 30 %

This trend by BCO’s to outsource the management of their container traffic to independent freight forwarders, is being driven by increasing frustration with the lack of service, price volatility, schedule unreliability and onerous credit terms experienced in dealing directly with carriers in the sea freight industry.

Carriers due to the huge downward pressure on container rates (largely due to their own misguided strategies) are being forced to increasingly commoditize their product. As a result carriers are increasingly incapable of meeting shipper’s needs through direct relationships as they lack the end to-

end service supply chain capabilities, focusing instead almost entirely on cost. Sales and customer service teams have been slashed as the fight to the bottom on rates continues. The advent of super alliances has further eroded the personal interfaces between the shipping lines and the end customers.

This move away from direct booking with carriers by BCO's is a great opportunity for independent forwarders to gain significant new business and volumes. For the logistics industry this is also a positive development and will help to further integrate the global supply chain.

So what exactly is the state of the independent freight forwarding market at this important juncture and more importantly how is the segment responding to this increasing demand from Beneficial Cargo Owners (BCO's) for their services?

These are the questions that our research will answer and in so doing provide much needed insight in to what BCO's can expect from the sector and more importantly what independent freight forwarders need to do to take advantage of these new more profitable opportunities.

PRELIMINARY FINDINGS JUNE 2016

- **Increasing Complexity in Global Supply Chains**
- **Supply Chain Complexity Drives Demand for Independent Global Freight Forwarding Solutions**
- **Commoditization In Carrier Market Leads To Rise In Outsourcing To Independents**
- **Independent Freight Forwarding Networks Come of Age**
- **WORLD FREIGHT ALLIANCE Identified as Benchmark Independent Freight Forwarding Network**

INTRODUCTION: These are the preliminary findings from our research.

THE SUPPLY CHAIN IS CHANGING

Preliminary findings point to a growing complexity in Beneficial Cargo Owners Supply Chains, the key drivers in this change are:

1. **A growing number of manufacturing and distribution locations.**
 - a. In response to the need to combine off, near and on shore capabilities.

- b. Demand from consumers for more rapid fulfillment.

2. External shocks to the supply chain

- a. BCO's are building resilience and contingency in to their supply chains in response to what seems to be a growing number of supply chain disruptions whether from "acts of God or Man"

3. E-commerce:

- a. The revolution in how consumers shop is being adopted by businesses also leading to more pressure on supply chains for greater transparency and flexibility

4. From Pallet to Package

- a. Omni Channel has introduced the "package" as a unit of freight

5. Logistics is a differentiator

- a. A growing understanding by BCO's of Logistics as a tool for value creation and competitive advantage.

To meet this increased complexity, BCO's are increasingly working directly with freight forwarders and 3PL's in preference to carriers, a fact reflected in changes in market share between carriers and forwarders.

For instance, 41 per cent of all ocean freight is now controlled by 3PLs or forwarders and by the end of the decade analysts are predicting that the market share will rise to 50 per cent – a remarkable switch in business practice by BCO's over the past two decades. 20 years ago some 75 per cent of all sea freight volumes were booked directly with carriers.

This shift away from carriers is driven by a myriad of factors, not least:

1. Lack of service

- a. Carriers are abandoning direct relationships with BCO's who don't command very large volumes of freight.
- b. Carrier's sales and customer service teams have been slashed as the flight to the bottom on rates continues.
- c. Super alliances between carriers have further eroded the personal interfaces between the shipping lines and BCO's.

2. Lack of capability

- d. Carriers lack the end to-end service supply chain capabilities, focusing instead almost entirely on cost.

3. Price volatility

4. Schedule unreliability

5. The move to forwarders is also driven by a myriad of factors:

6. Service

- a. Independent forwarders offer personal local service
- b. Independent forwarders that are members of global networks offer a world wide solution.
- c. Independent forwarders leverage their relationships with carriers to influence reliability of service.

7. Price

- a. Independent forwarders leverage their relationships with carriers to guarantee the best rates.
- b. Independents are increasingly willing to work on an “open book” policy and manage freight flows on a fee rather than margin basis.

8. Value Creation

- a. Independent forwarders provide integrated solutions across both supply and distribution networks
- b. Thinking outside of the box, actively engaging in rethinking and remodeling processes in pursuit of added Value, Visibility and Velocity
- c. Moving up the value chain to embrace Ecommerce fulfillment capability and 3D Printing

INDEPENDENT FREIGHT FORWARDERS ARE PROGRESSING AND GOING GLOBAL

Traditionally, Freight Forwarders acted as intermediaries between BCO's and carriers providing a failsafe when there were delays or interruptions in the transportation process by offering warehousing services etc.

In the late 1990's large freight forwarders expanded globally and began to offer contract logistics services to complement the traditional forwarding, warehousing and documentation offering. This gave rise to the third party logistics (3PL) industry.

To stay competitive independent freight forwarders created or joined global networks and gradually moved up the value chain, so much so, that today the line between forwarding services and contract logistics services are blurring.

Initially IT capability was the key differentiator between the multinationals and the independents however over time as technology democratized the gap closed. Indeed legacy systems developed and sometimes inherited by

the multinationals often proved to be a hindrance when global roll outs were being executed.

Today, the playing pitch is level, and the opportunity's for independent freight forwarders are more exciting than ever. The key is to evolve and BCO's as discussed earlier are more than and willing to partner with the sector.

The rewards are compelling, complex demands from BCO's affords independent freight forwarders the opportunity to offer customized services. Customized value-added services enable freight forwarders to be more profitable which is particularly important at a time when transportation is becoming increasingly commoditized and freight rates are at an historic low.

Complex demands from BCO's enable freight forwarders to develop expertise in niche verticals. Niche verticals by their very nature result in higher barriers to entry and enable the freight forwarder to differentiate themselves.

The demand for global coverage by BCO's is also key to the evolution of independent freight forwarders. The more progressive are forming partnerships with other like-minded freight forwarders across the world and are joining global networks to establish these partnerships.

Choosing the right network can be particularly challenging for freight forwarders as it puts them in a position with their customers where their network partners are expected to deliver to the same quality as they themselves do.

BCO's need to be confident that the level of service available to them locally is replicated around the world.

INDEPENDENT FREIGHT FORWARDING NETWORKS COME OF AGE

BCO's are global in their approach to sourcing and distribution and as a result outsource to freight forwarders who can provide global coverage.

Therefore for independent freight forwarders, membership of a global network is crucial. Network membership enables freight forwarders to form relationships with other freight forwarding companies, gain access to their resources and link with their activities all critical in connecting BCO's to international supply and distribution networks.

Combining their resources and activities with those of other freight forwarders will result in BCO's materials moving faster at lower costs with superior customer service than competitors.

However not all networks are the same and that is the challenge for freight forwarders, how to go about identifying the correct network to partner with and having chosen a particular one, how to make membership work for both the company and its clients.

There has been very little in the way of research on how successful freight forwarding networks operate. As a result BCO's and freight forwarders have access to very little information when evaluating the market place. The Institute will address this knowledge deficit in its final report.

Our approach is to first identify a benchmark network to research and for this the Institute has chosen the World Freight Alliance.

WORLD FREIGHT ALLIANCE: BENCHMARK FREIGHT FORWARDING NETWORK

The World Freight Alliance (WFA) enjoy a very distinguished history in the development of global independent freight forwarding networks. While established in 2003, WFA's roots go back to 1990 when Airborne Express the express delivery company and cargo airline, headquartered in Seattle, Washington developed the Overseas Express Carriers (OEC) alliance. The OEC, was an alliance of independent global express companies that functioned as a worldwide delivery network for its members to compete with larger companies.

In 2003, when Airborne was bought by DHL to gain a foothold in the US market, the other members of the OEC alliance with 13 years hands on experience of dealing with each other formed the WFA.

The WFA is an industry network where freight forwarders have developed relationships with the aim of pooling their resources and activities to offer a freight forwarding service on behalf of other firms in the network. Thus, by connecting with freight forwarders in other countries and combining their resources and activities with those firms, the network of freight forwarders offers a more expansive service with a global reach greater than each individual member would be capable of offering alone.

The WFA unlike the majority of other networks is member owned and operates on a not for profit basis. WFA has been developed by principles from freight forwarding companies who in response to a growing demand

from large multinational shippers form global alliances with likeminded independents across the world.

WFA, carry out an exhaustive verification process on the information provided by new applicants and of the references provided to assure that new company's fit within the profile of the companies of the network.

This approach to member recruitment guarantees that:

1. WFA is a trusted global network with local market knowledge.
2. Is comprised of dedicated members specifically chosen for their exceptional performance and customer service.
3. Demonstrate network standards which guarantee effective hands-on management and help build lasting relationships.

WFA members demonstrate commitment in relationships which over time has led to the development of interdependent activities, increasing the level of mutual productivity.

WFA Network relationships are founded on strong conviction and mutual commitment to excellent service when dealing with the handling of a client's freight.

Personal relationships between WFA members have been developed through informal daily contacts, and through formal network meetings, which in turn has generated ties that contribute to the creation of a sense of belonging and commitment to the network.

OUR REPORT;

Our final report will explore

- The development of the WFA and provide readers with a unique insight in to the development of an international network of regionally independent freight forwarders.
- How the network operates focusing on the relevance of relationship and network theory to the behavior of medium and large sized freight forwarders in business networks.
- The development of the freight forwarding network from the perspective of freight forwarding firms.
- How a network comprising competing forwarders operates and will focus on the relevance of relationship and network theory to the behavior of freight forwarders in business networks.



- How by leveraging the WFA platform, members have developed relationships with the aim of pooling their resources and activities to offer a freight forwarding service on behalf of other firms in the network.
 - How members have by connecting with freight forwarders in other countries and combining their resources and activities with those firms offer a more expansive service with a global reach greater than each individual firm would be capable of offering alone.
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