

Freight Forwarders in Uncharted Waters

By Deep Parekh

Doomsday is Here

According to an article published in *Shipping Digest* on January 19, 2009, "last year's failures of several truckers, the US retreat of DHL, layoffs across the industry, steep declines in shipping volumes, plant closings by Chinese contract manufacturers, production shutdowns by US and foreign automakers, and a growing list of bankruptcy filings at brand-name manufacturers and retailers point to a thoroughly ugly year for everyone in the freight economy". The article highlighted that "smaller carriers have already taken the blow, with at least 2,500 bankruptcies so far this year." Imagine the rest of the year if the first 3 weeks had some 850 bankruptcies per week.

Wake Up and Smell the Coffee

To get a non-industry (read objective) definition of what a Freight Forwarder is, we consulted Wikipedia, and found the following:

*A **freight forwarder** is a third party logistics provider. As a third party (or non asset based) provider a forwarder dispatches shipments via asset-based carriers and books or otherwise arranges space for those shipments. Carrier types include waterborne vessels, airplanes, trucks or railroads. **Freight forwarders** typically arrange cargo movement to an international destination. Also referred to as international freight forwarders, **they have the expertise that allows them to prepare and process the documentation and perform related activities pertaining to international shipments.** Some of the typical information reviewed by a freight forwarder is the commercial invoice, shipper's export declaration, bill of lading and other documents required by the carrier or country of export, import, or transshipment. Much of this information is now processed in a paperless environment.*

The reason we wanted to get an 'objective' definition of it is because in this new era of financial crisis, each service that will maintain their customer base will certainly have to do its homework to justify itself and make it even more dear and inexpensible to its customers. For Forwarders (we categorize them as *Logistics Service Providers* or *LSP*), this means that they need to do a whole lot more than what the Wikipedia definition gives them – essentially administrative or clerical duties, which require some limited amount of specialized knowledge. Forwarders themselves, however, have quite a different image of themselves; with their veneer of supply chain management process knowledge, systems capabilities, and strategic support, they've built themselves up beyond what they can effectively deliver. The danger is that whereas until now, the industry was relatively stable, it's going into freefall, and there's going to be a lot of consolidation, bankruptcies, and overall reduction in the industry before it redefines itself to come out of the ashes with a new face. LSPs have some control of this fate of theirs, however, and it is best that they take matters of their future into their own hands before decisions are made for them.

Hard Times Survival Guide

McKinsey & Company published a very practical guide to surviving these hard times, and it could not be more applicable to Forwarders:

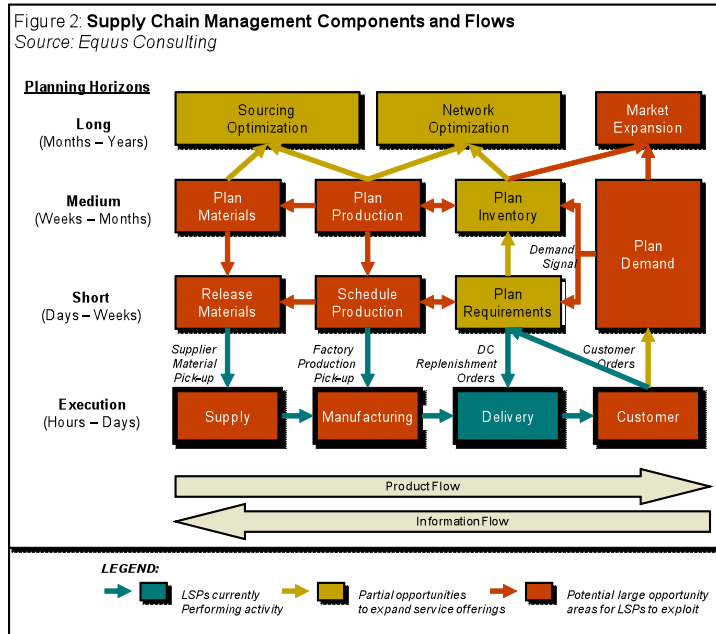
- If you believe you can't live through this period, sell out early, else you will have no bargaining power at all
- Save the core at the expense of the periphery
- Any stable source of good profits – any competitive advantage – attracts overhead and clutter; you must cut it during the bad times to stay lean
- Pressure to cut expenses and find new efficiencies is a good thing; use these times to make hard decisions

- Use hard times to concentrate on and strengthen your competitive advantage
- Buy the assets of distressed competitors at bargains
- Buyers will want better terms – they might settle for rapid, reliable payments

“The wrong way forward is a structural break during hard times is to try more of the same. The break and the hard times are sure indications that an old pattern has already been pushed to its limits and is destroying value.” It’s time for Forwarders to learn something new, to reinvent themselves, to offer different and less price-transparent services, and collaborate with others in the supply chain industry.

Expanding LSP Horizons More into Value Added Services

Traditionally, LSPs have competed against each other essentially on price. The industry is already fragmented, and consolidation has been inevitable for a while, but while global trade was expanding, it was somewhat of a free-for-all, and anyone with a truck could call himself an LSP. This crisis changes all that. Prices are no longer elastic, and competition on price cannot continue. The margins are already razor-thin, and there is nothing to cut. Freight Forwarders are in somewhat of a bad position, as they have no assets to shed, no labor to cut, no systems to make things more efficient. Their basic service has been commoditized over the years, and with a market in free-fall, they are about to hit the ground very hard...unless they move up the value chain into more traditional *Management Consulting* areas as well as in the *Business Analytics* space. This is perhaps the only way for survival for Freight Forwarders. We have shown this graphic in Figure 1 earlier this year, to illustrate where LSPs are concentrated, and where they can expand to.



Management Consulting Services

LSPs need to collaborate with traditional Management Consulting firms in the wider supply chain space, to go after areas that don’t fall in the ‘Delivery’ space. We refer to some quick win opportunities such as *Distribution Requirements Planning* and *Inventory Planning*. We’re not referring to the cycle counting type of inventory management, but the more tactical planning kind, where policies are set based on demand, supply, production, and sourcing parameters. Management Consulting firms have been helping the shippers with this type of work for decades, whilst LSPs have concentrated on the logistics execution of these tactical plans, not realizing that if tactical planning is ‘broken’, logistics execution can’t generally save the day. This type of service will allow Forwarders to get more embedded in their clients’ requirements, and provide them greater visibility of what is coming down the road.

In practical terms for the Forwarder, this means teaming up with a Management Consulting firm who knows this work, understanding the service offering, and then subsequently offering it to the client of the Forwarder. The Forwarder has a great deal of information about the shipper’s order –

i.e. the quantity, the route, the product, the frequency of these shipments, the frequency of production orders, and many other data that are critical for development of a Distribution Requirements Plan as well as an Inventory Policy and Plan. By offering these value-added services, the Forwarder could become more involved and integrated into the shipper's business, while spending nothing additional on marketing and sales.

Business Analytics

Analytics is another undiscovered area for Forwarders. This area involves detailed mathematical and statistical analysis about what is happening with the shipper's logistics transactions, and interpreting the analysis and findings so as to provide visibility, predictability, and detailed recommendations to the shipper, based on their historical logistics transactions. In practical terms, the Forwarder sits on an abundance of shipment dates, time, quantity, routing information and could provide detailed analytics on performance levels, predictability of routing timings, failure reason codes, and eventually, even more advanced analyses so as to reroute the shipment en-route so as to make time commitments.

According to recent McKinsey article, *The Crisis: a New Era in Management*, "decisions made in the immediate future are critical, for they will influence how well organizations manage themselves now and compete over the longer haul. The winners will be companies that make thoughtful choices – despite the complexity, confusion, and uncertainty – by assessing alternative scenarios honestly, considering their implications, and preparing accordingly." We could not agree more. In practical terms, LSPs need to get out there and look for Management Consulting and Analytics firms as partners, explore these services in their existing client base, and go after their business in a new way.

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