Drewry | Consultancy
Independent Maritime Expertise

The Opportunities and Challenges for International Freight Forwarders

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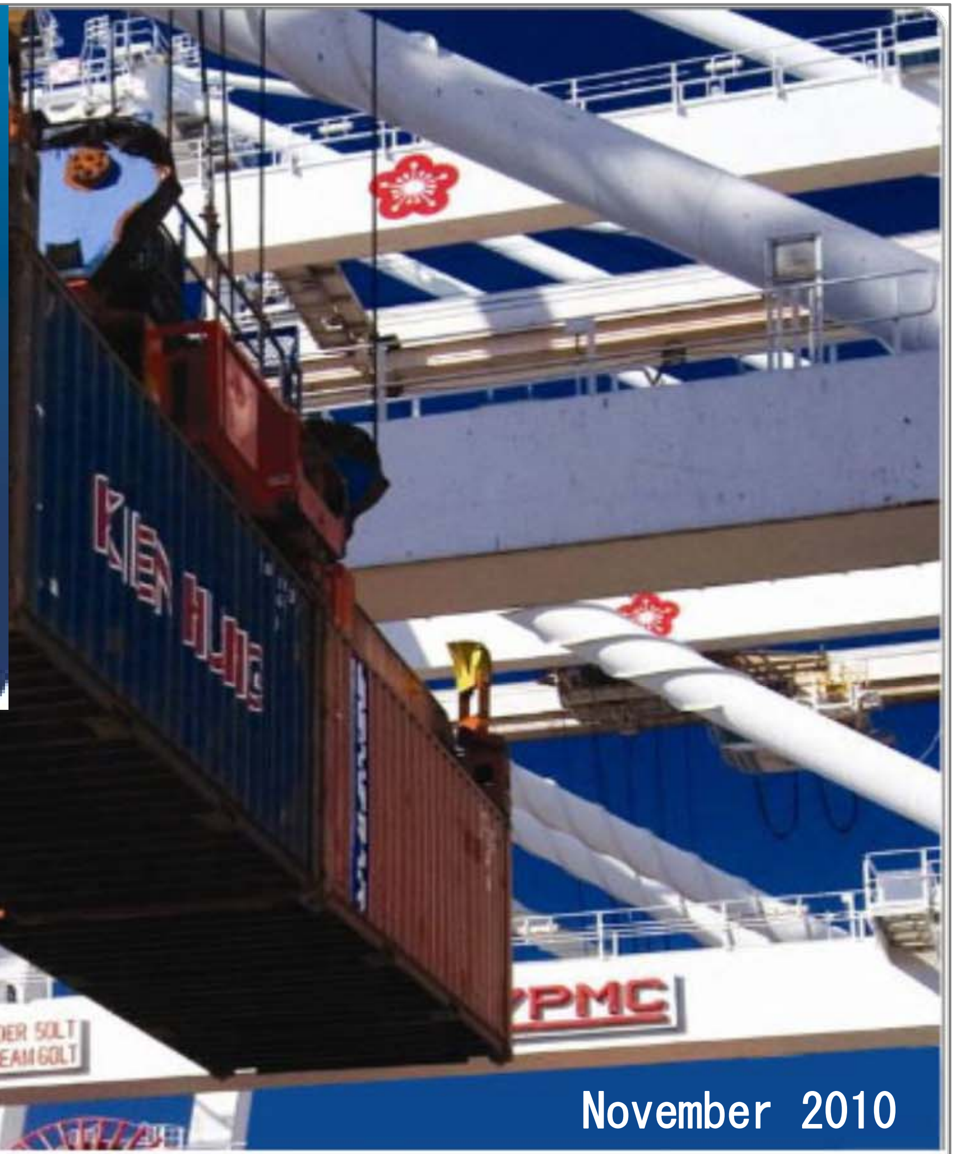

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Agenda

1. Long-term trend in the forwarders' market shares and market position

2. The 2010 transport capacity crunch – exporters and importers needed help

3. Opportunities for forwarders

   Challenges for forwarders

4. Conclusions

1. Long-term trend in the forwarders' market shares and market position

Long-term trend

- In the past three decades, the freight forwarding sector has secured a large role in global commerce and considerably increased its presence in the market.
- The freight forwarders' cost structure and their asset-light model have also proved successful and reliable, at a time when the carrier sector has been under financial pressure.
- The need for traditional forwarding services (arranging basic transport services and associated foreign-trade documentation) by sea, air and overland continues.
- Many forwarders now also provide contract logistics and supply-chain management services in addition to traditional forwarding services.
- Overall, the forwarding sector has been significantly more profitable than the ocean carriers and airlines on which forwarders depend.

Share of forwarders of the global ocean freight market			
1980	10%		
2007	35%		
Share of forwarders of the global air freight market			
1997	76%		
2007	95%		

Challenges facing supply chain managers

- On shelf availability
- Increased choice
- Faster range change
- Keeping the product offer fresh
- Fewer markdowns
- Alternative retail formats
- E-retail and reverse logistics
- Faster inventory rotation
- Environmental impacts
- Volatile demand

- Expanding vendor base geographies
- Vendor performance
- Quality management at long distance
- Intellectual property theft
- Extended lead times
- In-market storage costs
- Inventory positioning
- Off-shore DC operations
- International freight capacity and costs
- Distribution network costs

Companies must stay competitive

- ***global sourcing is a central strategy for increasing gross margin***
- ***net margin hinges on the full end to end cost to serve***

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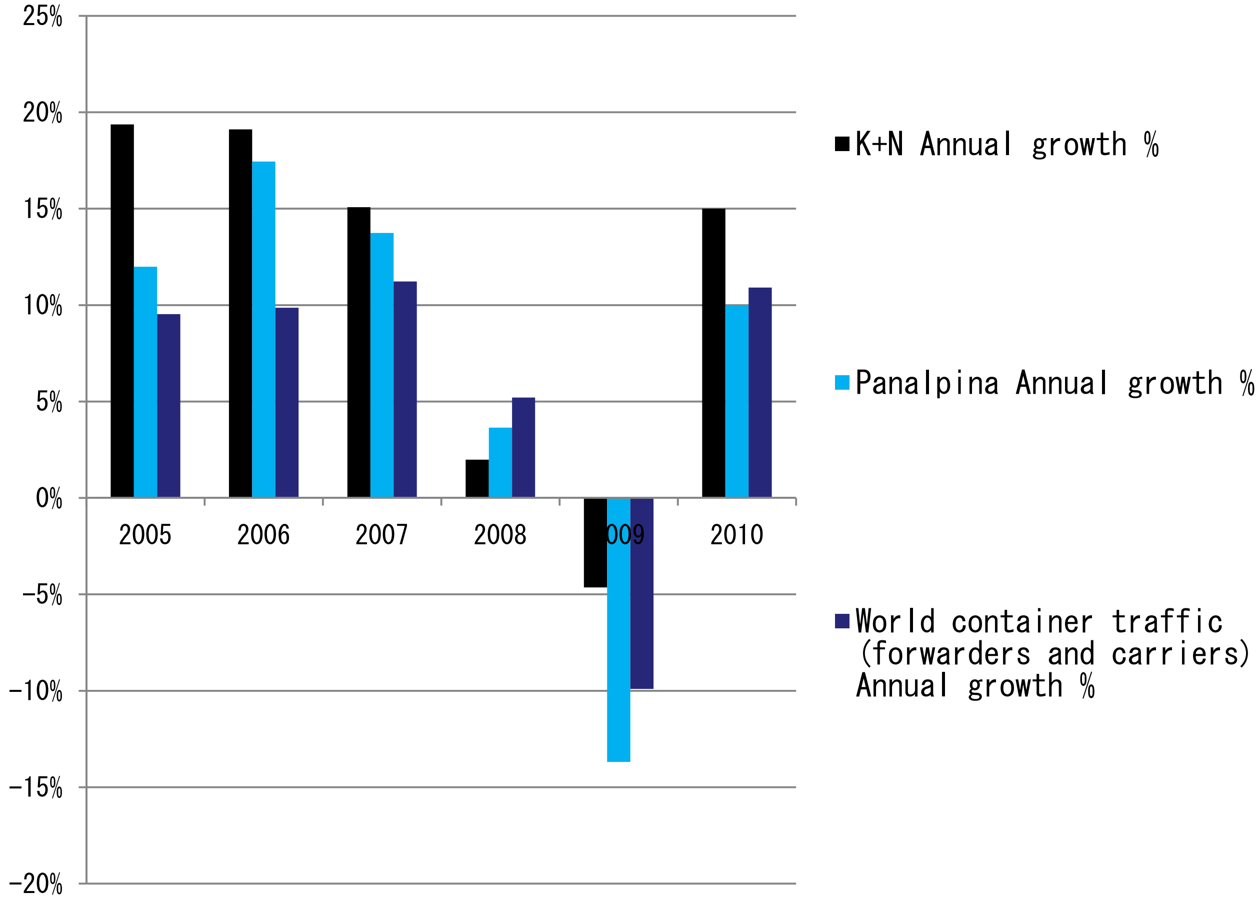
Large forwarders get bigger and grow faster than the market



	Compound annual growth 2004-2010
KUEHNE+NAGEL	10.6%
PANALPINA on 6 continents	6.7%
World container traffic	5.9%

Four major types of forwarders

- ❑ Global forwarders
- ❑ Local forwarders
- ❑ Regional forwarders
- ❑ Specialist forwarders

Local forwarders are facing an uncertain future. Every country has a whole raft of small local forwarders who specialise on a specific locality or customer-based served in a highly personalised way. However, this sector is declining as the importance of networks and freight rate economies of scale are paramount.

Total number of licensed ocean transportation intermediaries and NVOCCs in the US
2000 4,019 companies
2008 5,304 companies + 32%

2. The 2010 transport capacity crunch – exporters and importers needed help

2009 and 2010 provided a unique business environment for forwarders

- In 2009, up to 600 container ships worldwide were kept “idle” (ie parked) as a result of falling demand and deliberate policies by carriers to remove capacity
- Since early 2010, carriers have brought idle ships back into operation, but only AFTER trade volumes came back.
- Result: not enough capacity, cargo roll-overs.
- Many shippers who bought container shipping services from carriers contacted freight forwarders to ask for help.
- Freight forwarders won shipper business from carriers in 2010 because the carriers’ unfriendly practices

Question: will forwarders retain this shipper business, or will the shippers go back to the direct carriers?

Carrier practices in 2010

Rebecca Dye, commissioner of the US Federal Maritime Commission:

“[Shippers] believe the carrier practices involved in rolled cargo, cancelled bookings and successive price increases were in conflict with protections in their service contracts.”

House Committee on Transportation hearing of June 30, 2010

3. Opportunities for forwarders

Challenges for forwarders

Opportunities for forwarders

Opportunities – needs of customers

Challenges	Solution
Customers expect logistics providers to develop tailor-made and reliable solutions to manage their complex supply chain	Standardisation and expansion of product offerings
Sector specific expertise is of more importance than ever before	Streamlining of processes
Increased need for high transparency and agility of supply chains	"Continuous improvement" and education of employees
Cost concern – customers heavily and constantly negotiate for lower prices	Indirect costs of major importance
Flexibility of supply chains is key for customers	Investment in special equipment provided by the logistics company
	Product innovations

Source: DB Schenker

	When shippers get more value from freight forwarders	When shippers get more value from carriers
Scope of services	The shippers need a package of multi-modal transport services (ocean, air freight etc.), with access to many possible routes and carriers, and customs clearance from one vendor.	The shippers have basic ocean transport requirements and less complex service requirements.
	The shippers need door-to-door delivery (DDP or DDU) to overseas markets, including inland transport and the ability to track shipments from door to door.	In certain cases, to get comprehensive inland transport services and door-to-door delivery (ocean carriers like Maersk and APL provide comprehensive inland services, whereas other carriers do not).
	The shippers require shipment consolidation/LCL.	
	The shippers need value-added services beyond basic transport (purchase order management, origin cargo management, warehousing, pick-pack etc….) and the associated purchase order management or logistics IT system.	
Transport volume	The shippers have only low volumes (i.e. no bargaining power with the carriers).	The shippers have large volumes, enabling them to secure low freight rates and a more favourable treatment from carriers (peak season capacity, priority discharge).

Sector experience	The shipper is new or inexperienced in international trade.	The shipper has an experienced shipping/logistics department with experienced contract negotiators.
Contract type and cost volatility	To take advantage of (occasionally) low spot freight rates. This assumes that the shippers are willing to take the risk of more volatile freight rates/shorter periods of validity of rates.	To obtain a longer period of validity of rates, i.e. rates stable for six months to 12 months.
	To ship spot, irregular shipments to unusual destinations (which may not be covered by current carriers).	
Vendor relationship	To get more personalised customer service (carriers generally tend to be less good).	To control which carriers they use (forwarders may use low-cost, second-tier carriers without informing the shipper).
Special handling	The shippers trade in specialised products requiring specific know-how and equipment (wines, project cargo, certain chemicals).	
Internal or external cost preference	The shippers want to outsource certain local administrative processes (documentation, booking and carrier allocation, arranging inland transport) and downsize its internal shipping department.	The shipper can still have a transport contract with a carrier and use a forwarder as an agent to handle administrative processes.

Opportunities Check List

- Organic Growth
- Regional & Geographic
- Network Growth/Consolidation/Acquisition
- Modal Extension
- Specialism
- Outsourcing
- Contract Logistics
- Primary/Secondary Integration - Total Cost to Serve
- Informational and Optimisation
- Supply Chain Financial Services

Opportunities – Outsourcing

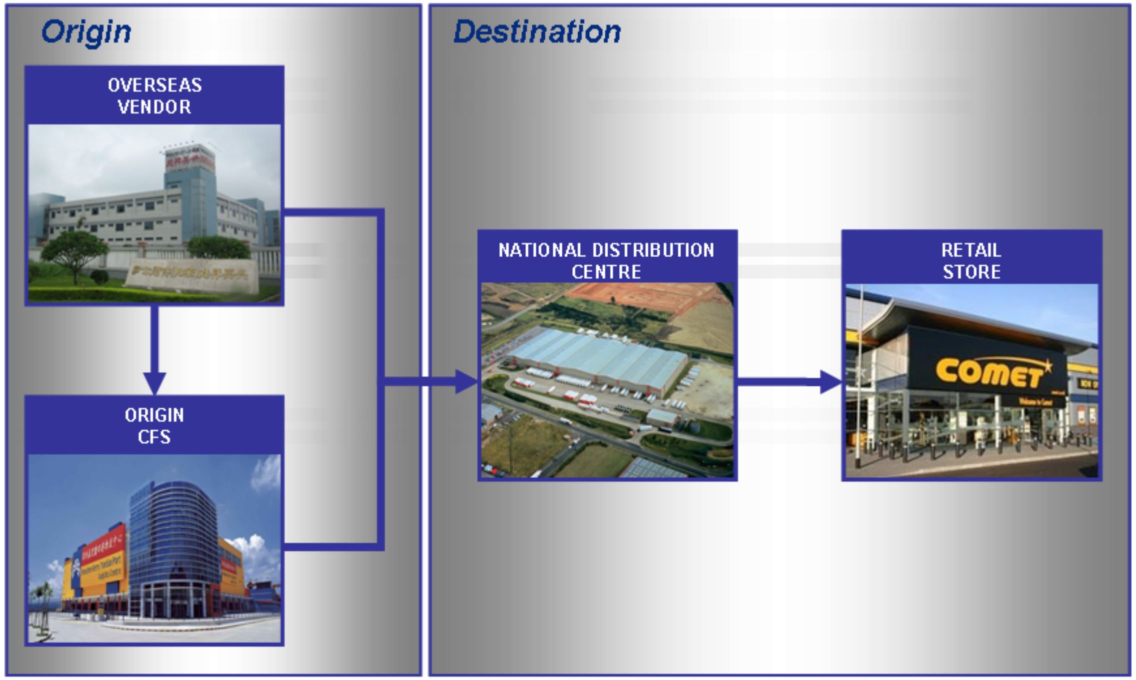
- A common method for exporters and importers to reduce head office costs is to outsource transport and shipping administration and support activities to a freight forwarder. Generally, the outsourcing decision is driven by a comparison of internal and external costs as well as assessing the benefit of turning fixed costs into variable costs. one example was provided when, years ago, a major American chemical importer outsourced its international traffic department: it downsized its traffic department from 70 people to three people by outsourcing its activities to a freight forwarder. Companies such as DuPont and Philip Morris have outsourced their freight forwarding-type activities.

- As intermediaries (or "managers") of other vendors, freight forwarders are in an ideal situation to monitor the performance of carriers and other sub-contractors. Drewry provides a list of common KPIs. KPIs are an area when operational monitoring is becoming more responsive and more effective. However, this also requires strong IT and clear rules to control performance.

- Origin country value-added services eg consolidation/CFS, vendor management, organisation of origin country inland transport (ex factory)

Supply Chain Primary Secondary Integration
– critical to end customer’s optimising gross and net margin

Traditional Retail Model



CY or CFS to NDC

Single route to market

Difficult to change pace

Risks mitigated by costly stock-holding close to consumption market

Inbound LSP motivated by “OTIF” kpi’s

Poor alignment of product flows to “new” distribution channels (e.g. multi-channel retailing)

Multiple problems need multiple solutions

Most Supply Chains are a bit like a Blunderbuss!

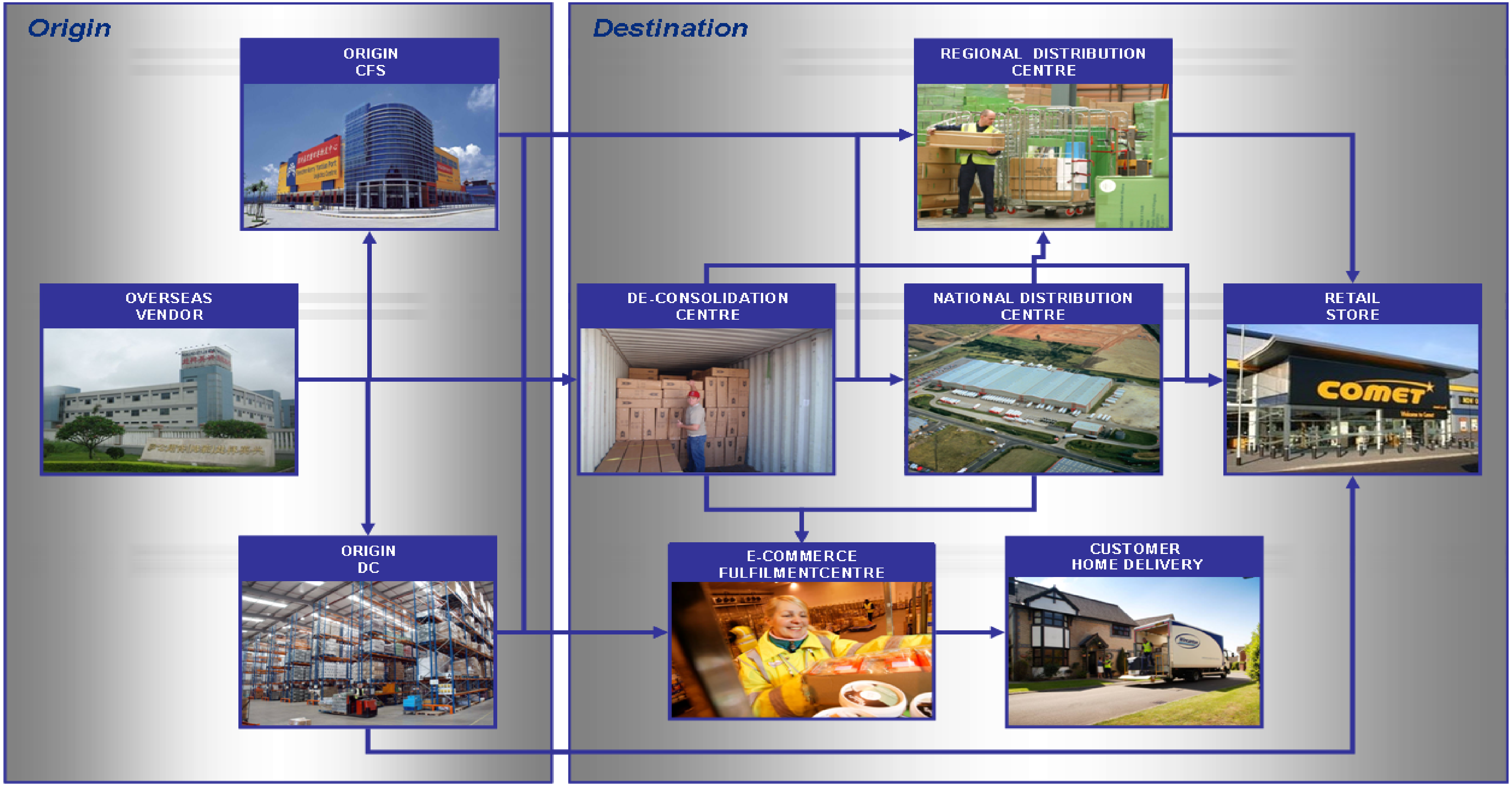
Shove anything in it, pack it with energy and fire it at the consumer

Ending the Blunderbuss of the Homogonous Supply Chain

- Different consumer behaviours
- Different product values
- Different forecast predictability
- Different ordering criteria and sourcing options
- Different locations for the value adding activity functions

The next generation of supply chains will reduce costs and improve customer satisfaction by much greater logistics differentiation between the SKU

Supply Chain Network Design Opportunity for Forwarders
– *what is done where is a critical decision*



Active management of Total Cost to Serve through different routes to market

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Opportunities – supply chain finance

- Some cash rich freight forwarders may use their stronger financial position to extend credit to customers with liquidity issues. If the contract includes an element of warehousing it becomes more practical to hedge bad debt against lien on the shipper’s inventory.

- Some have developed niche product offerings in supply chain finance (SCF), which can take many forms from simply extended credit terms to product procurement and trade financing. SCF programmes are now offered by most international banks, providing the buyer with a working capital management facility (effectively extending payment terms) and giving prompt payment to vendors. It is fast becoming an effective means of substituting for lower credit availability during the recession. Some of the large integrators, such as UPS, already offer SCF programmes but smaller forwarders have become increasingly active in this area.

Opportunities – examples

- APL Logistics, Sumitomo form alliance

APL Logistics formed a strategic alliance with Japan’s Sumitomo Warehouse Co. to jointly market global supply chain services. Under the agreement, Osaka-based Sumitomo will offer its warehousing and other logistics capabilities in Japan to APL Logistics customers, while APL Logistics will make its global services available to Sumitomo customers.

- Davies Turner's sea freight consolidation business grows in China

UK-based Davies Turner has seen its China-UK consolidation trade grow despite the downturn in the global supply chain industry, following the financial crisis.

"Over the last few years, we have been ideally placed to win the business of shippers who are switching from FCL to LCL traffic and who are looking to reduce inventory costs and stock holdings."

- Ocean World Lines Introduces Cargo Management Services in Asia

The cargo management services, including worldwide door-to-door air, ocean and ground transportation, offers a total supply chain service from local oversight of the manufacturing process to securing the best projected booking date for the shipment.

"We contact our customers' vendors 21 days, 14 days and 7 days prior to the target ship date to secure the best booking. This allows shippers to plan at the factory level and provides line item detail into the supply chain before the manufacturer uploads the purchase order."

- DHL starts Shanghai to Tokyo LCL service

DHL has started offering a direct service for less-than-container-load (LCL) shipments between Shanghai and Tokyo.

Challenges for forwarders

Challenges – commercial

- ❑ Attracting large-shipper customers away from ocean carriers

Small and medium shippers have always turned to forwarders for their international transport needs for both ocean and air transport. Large shippers have tended to use direct ocean carriers. But this is changing due to the large shippers' need for:

- complementary capacity for international ocean freight services
- support services and value-added services.

Forwarders may act as the shipping department of certain large shippers, under an outsourcing agreement. The shipper may still have contracts with carriers, but relies on the forwarders to manage the bookings, allocations, documentation etc…

- ❑ Management of the supply chain continuity of shippers – Total Cost to Serve

- ❑ Room for a fast ocean service at a premium price, whereas most services are now operated by carriers with "slow steaming"

- ❑ Strong company policies and internal checks to avoid risks of very large fines from regulators due to anti-price-fixing and anti-bribery legislation.

Challenges - operational

- Service reliability and consistency
- Slow steaming will remain
- More focus on carbon footprint
- Tighter security rules
- Monitoring of shipment visibility and data accuracy
- Will forwarders have “block space agreements” in ocean shipping, as in airfreight?

4. Conclusions

Conclusions

1) The range of value-added services and multimodal transport options of forwarders are attractive to many shippers who now want than just basic transport.

2) Forwarders have gained market share in the last 3 decades, including in 2009-2010.

3) We have seen that forwarders face a number of opportunities and challenges.

4) Small and medium shippers have always turned to forwarders for their international transport needs for both ocean and air transport. More recently, even large shippers have used forwarders either as a complement of capacity for international ocean freight services or as providers of support services and value-added services. Drewry believes that forwarders can position themselves to seize new opportunities.

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Thank you.

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