THE CHANGING ROLE OF THE FREIGHT FORWARDER

BY ISSA BALUCH

The problem of supply and demand is the driving force of human history, and it is directly related to transport: if we cannot produce the food or goods we want to consume or use, they must be transported to us. In the age of trade between farms and villages, this transport was relatively simple, if slow, and performed with animals and wagons or only with manpower. However, as people began exploring other trading opportunities, cross-country and cross-continental travel began to spread. With exploration and the birth of global maritime trade came the growth of merchant shipping and long-distance transport by sea. The Industrial Revolution of the eighteenth and nineteenth centuries applied steam power to transport, ultimately facilitating even faster movement of goods.

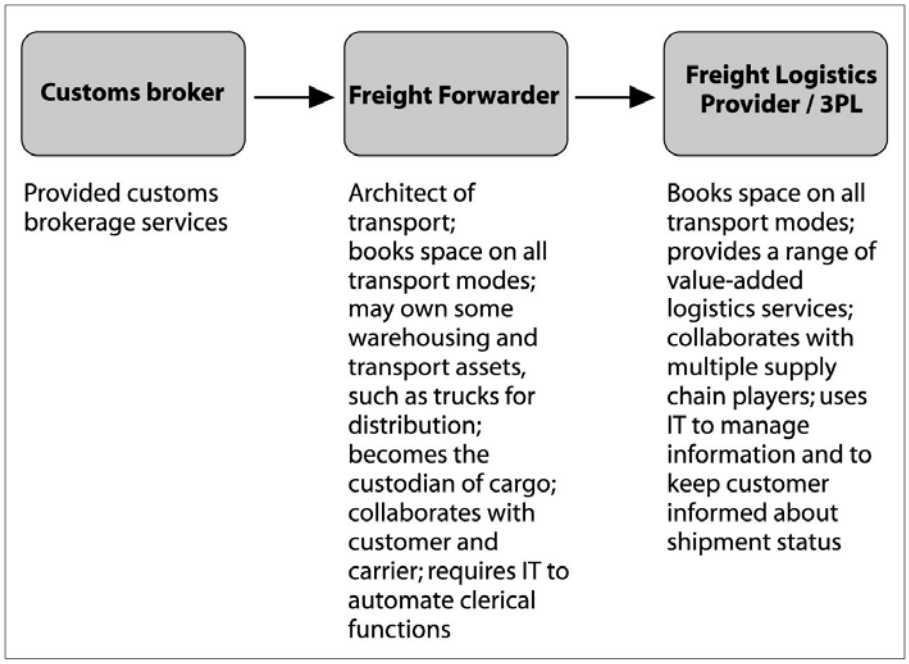
Today, the products we consume travel long distances along global supply chains to reach us. Production, inventory control, transport, and distribution, and specialized handling and management are all part of these supply chains. As supply chains become more geographically intricate, their success depends more and more on the expertise of competent transport intermediaries (freight forwarders, or freight logistics providers).

Where did these transport intermediaries come from? Levying customs duties by government agencies has been a basic part of trade throughout history. With the collection of customs duties came demand for middlemen and agents who would move goods on behalf of the shipper or consignee. Customs brokers and agents who acted on behalf of shippers to arrange freight transport and buy space on ships evolved into freight forwarders. The role of the freight forwarder has further expanded, and they have long-abandoned the perception of being mere agents for the transport industry. Today's freight logistics providers (FLPs) are responsible for an entire array of services in the supply chain. (Figure 12.1) This paper examines the changing role of freight forwarders, the importance of their services to the functioning of global supply chains, and some of the tools they can use to add value to these supply chains.

The Forwarder's Role in Global Supply Chains

Supply chains involve many groups of trading partners, and logistics is the key to holding them together. Logistics is defined as the process of planning, implementing, and controlling the efficient flow and storage of goods and their related information. As global logistics become more demanding, and as the savings available through supply chain efficiency become more attractive, the outsourcing of procurement, distribution, and return logistics has become a common practice. The high-tech industry, for example, is experiencing shorter product life cycles with almost every quarter. No sooner does an existing model hit the shelf than a more advanced version is ready to replace all existing stock. Increased competition to be the first one in the market with the latest model has put greater pressure on the supply chain.

Figure 12.1
The Freight Forwarder's Evolution



There are numerous factors that companies take into consideration when outsourcing and planning their supply chain activities. First, if a firm independently manages its own logistics, it has to divert attention from its core competencies and strengths. However, if the firm outsources some functions, such as warehousing, inventory management, or distribution, it is better equipped to focus on other tasks. It also benefits from having its goods handled, stored, and delivered professionally.

Second, when entering the market in a new geographic area, it is unlikely that a firm will be aware of the intricate details of business management within that region. These include local documentation and procedures that require regional expertise. For a firm to manage these activities from thousands of miles away would prove extremely taxing, and would require continuous updates of activities and IT support. Outsourcing logistics activities gives firms a global reach and helps them take advantage of external market opportunities immediately.

FLPs can undertake various logistics tasks in the supply chain and in doing so add value to the product. These tasks usually include the freight forwarder's traditional customs clearing and forwarding work, as well as services such as warehousing, distribution, inventory management, co-packing, labeling, repacking, weighing, and quality control. By providing these services, the FLP plays an essential role in domestic and international supply chains. Firms can outsource these tasks to the FLP, saving money and limiting geographic constrictions. The FLP can benefit the firm by reducing turnaround and transport times.

In order to survive, FLPs must provide value-added services that comprise a significant portion of the customer's total logistics costs. Quality, value-added service is based on consistently providing customers with ever-improving solutions to their supply chain needs. And supply chain participation is not an option for FLPs—it has become necessary in an age when there is such limited value in simply facilitating

the customs clearance process. Moving freight between supplier and consumer is not enough. It is entirely possible that, in some parts of the world, the freight forwarder as we knew him will be extinct in five to seven years. To survive, the freight forwarder must integrate his services into the entire supply chain system, making his expertise part of an integrated whole.

The small forwarder who has not yet discovered a way to add value to the supply chain will be threatened by the entry of other competitors into the market. As major logistics providers, shipping lines and forwarders merge, fewer and fewer customers need a pure forwarder whose capacity is limited to clearing and forwarding tasks. While the freight forwarder is evolving into an FLP who provides value-added services, banks, shipping lines, trucking companies, terminal operators, and consultants are adding logistics services and freight forwarding to their lists of services provided. The primitive forwarder will not be able to compete with these flexible FLPs unless he actively integrates himself into a supply chain.

The difference between a primitive freight forwarder and an FLP is the value added services they provide. Freight logistics providers must be flexible and able to provide a variety of services based on the customer's demand, and FLPs in different regions are seeing different trends in service offerings. Third-party logistics (3PL) services in Western Europe and Asia Pacific tend to be more integrated than 3PL services in North America.[1] Europe is home to a mature 3PL industry, and forwarders there are more aware of their changing role than forwarders in other regions. While forwarders in developing countries may, out of necessity, be more concerned with transport infrastructure and trade bottlenecks than with supply chain integration, the forward-thinking ones recognize its future importance. As regulations change and more countries join the World Trade Organization, more opportunities are created for major multinationals to enter markets that were formerly closed. There may always be a market for the small forwarder, but it will most likely shrink.

Every company, from small grocery store chains to multinationals like Nike, has learned that inventory management and distribution are the keys to improving supply chain performance, increasing value for the customer, and lowering total logistics costs. An FLP, by definition, manages inventory in transit and at rest; he can therefore undertake a variety of inventory management options, such as those shown in Figure 12.2.

[1] Langley, Allen, and Colombo, "Third-Party Logistics: Results and Findings of the 2003 Eighth Annual Study," 10.

Figure 12.2
Activities Most Often Outsourced to 3PLs

	North America	Western Europe	Asia-Pacific
Warehousing	73%	91%	46%
Outbound transport	71%	95%	87%
Customs brokerage	66%	57%	N/A
Inbound transport	62%	71%	62%

Source: Third-Party Logistics: Results and Findings of the 2003 Eighth Annual Study, Capgemini, Georgia Institute of Technology, and FedEx Supply Chain Services

When we break down these four service categories, we will see that there are a number of logistics tools at the FLP's disposal, which can be used to add value to the supply chain. These tools include distribution, warehousing, vendor-managed inventory, supply management, postponement, and ancillary services such as labeling, weighing, quality control, co-packing, and repacking. Whatever tools he uses, the FLP must, more than ever before, be familiar with the intricacies of his customers' products.

The FLP must also be capable of providing just-in-time services (JIT), because volatility of demand continues to be a major challenge facing supply chains. In a just-in-time system, inventory is kept at a minimum in small lots, and products are supplied on demand rather than stocked in large quantities. The advantages of this system include capital reduction, plant throughput, quality assurance, and market responsiveness.

Value-added services such as distribution and packing are self-explanatory. Following are two unique tools that a freight logistics provider can use to add value to his customer's supply chain.

Vendor-managed Inventory (VMI)

The Vendor-managed Inventory system (VMI) gives the supplier (vendor) the responsibility and authority to manage the entire replenishment process. He monitors the buyer's inventory levels, makes re-supply decisions, and initiates transactions that would previously have been completed by the buyer. The relationship between Wal-Mart (a leading US consumer products retailer) and its suppliers is a good example of VMI. Suppliers such as Procter & Gamble and Johnson & Johnson have agreements with Wal-Mart to maintain and replenish their product inventory at Wal-Mart stores. Wal-Mart in turn gives control of replenishment timing and quantities to these suppliers. It also shares electronic point-of-sale data with suppliers so that they always have up-to-date information about customer demand. With the Internet, this kind of cross-supply chain information sharing takes place seamlessly and efficiently.

For a 3PL to undertake VMI in its truest sense, he would have to become the owner of the inventory. Instead of owning it, the 3PL usually manages the inventory on behalf of its owner/vendor. It is sometimes better for inventory to be managed at

or nearby a manufacturer's facility. In these cases, a third party (often a 3PL) sets up a supply hub on or near the manufacturer's site where it warehouses and manages the inventory that is needed for production and distribution. In this way, the 3PL has a ready stock of parts for the manufacturer, and neither the 3PL nor the manufacturer has to rely on extensive transport networks for delivery. The 3PL may provide other value added services, such as procurement, purchase order management, invoicing of supplier goods, and transport to and from the supply hub.

Postponement Logistics

Postponement provides manufacturers with a cost effective method of mass customizing a product. The idea is to maintain the product in a neutral or non-committed state, delaying its differentiation to the last possible moment. Postponement saves customers money and adds value to the supply chain by eliminating obsolete inventory and making the product to the customer's specifications more easily. The task of differentiation can be outsourced to an FLP, who may also carry out traditional freight forwarding and customs brokerage tasks.

If the supply chain stretches long distance, as most supply chains do, it makes sense to outsource customization to an FLP who can handle distribution as well. For example, an FLP might take on the job of placing corporate logos onto hair dryers for hotel chains. At the last minute, the hairdryers may be customized for a specific hotel chain from a supply of neutral units held in a bonded warehouse. The FLP would then be responsible for transporting the hairdryers to the hotel locations. Alternatively, an FLP might customize computers for a specific country by adding the appropriate electrical plugs at its warehouse, and then provide distribution services to retailers throughout the country. An FLP might also apply country-specific product ingredient labels on imported food products.

Leveraging IT to Manage Transport Logistics

Information technology is one of the most powerful enablers that the FLP has at his disposal, and it is rapidly changing the way he operates. Each evolutionary step in technology, from the telephone, to the fax, and now the Internet, has had a major impact not just on the way the FLP conducts his business, but the role of the FLP itself. Armed with real-time communication and information sharing capabilities, inventory status, goods efficiency reports, and track-and-trace capabilities, the e-competent FLP can approach his customer with a reservoir of services and options that let him blend the virtual world with the physical one.

Technology was first introduced to business as a way of automating clerical functions. However, in order for a company to enhance its competitiveness, its IT utilization must evolve from mere information processing to the automation and improvement of the physical aspects of supply chain activities.[2] IT is no longer a support service, but an integral part of operations that allows for greater flexibility, speed, and efficiency. It has become a seamless, lightweight replacement for bulky paper operations, from the submission of customs documentation to booking space on a ship or airplane.

[2] Narasimhan and Kim, "Information System Utilization Strategy for Supply Chain Integration," 53.

The foundation of the technology used in today's trade and transport networks is Electronic Data Interchange (EDI), which refers to the systems that allow computers to conduct business transactions over telecommunications networks. The development of EDI systems around the world began in the mid-1980s. The result was faster communications, allowing for better control of the information flow, a decrease in the volume of paper, and reduced costs. The international trading community thus obtained higher service levels, gains in efficiency, and improved partner and client relations.

While EDI has revolutionized global trade, there are specific applications that can do more than simply connect two like computers over a telecommunications network. Supply chain management (SCM) software can carry out functions such as forecasting, order fulfillment, demand planning, network planning, warehouse management, and transport management. SCM software that optimizes transport involves automating tasks such as routing, scheduling, load planning, consolidation, carrier selection, import, export, and track and trace. One important tool for track and trace is Radio Frequency Identification, or RFID. (See Figure 12.3.)

SCM applications have a few capabilities in common. The information must be accessible to a user anywhere in the world, it must be accurate, it must be flexible, it must be visible, and it must be fast. With the help of SCM software, supply chain managers can achieve inventory efficiency; faster information flow; more accurate determinations of when and how much material/capacity must be purchased, produced, or moved; careful monitoring of events and inventory within and outside the enterprise; and electronic enterprise linkage, which replaces manual linkage.[3] These systems can help companies integrate similar functions spread over different areas and curtail unnecessary activities, enhancing their ability to cope with customer needs and meet product quality standards.[4]

The use of SCM applications varies in different parts of the world. In 2003, North America's top five 3PL-centric information technologies were applications for:

- warehouse management
- shipment tracking and trace/event management
- export/import/forwarding/customs clearance
- web-enabled communications
- transport management

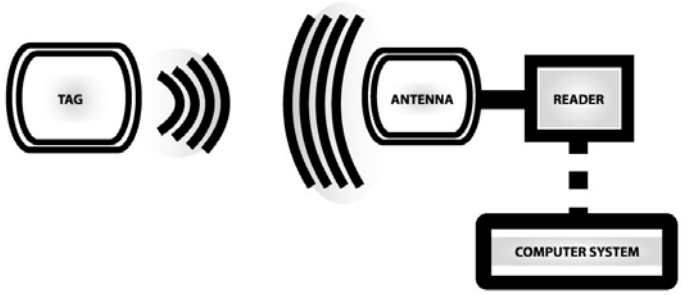
In Western Europe, the top five uses of information technology were applications for:

- warehouse management
- export/import/forwarding/customs clearance
- transport management
- shipment tracking and trace/event management
- web-enabled communications

[3] Peterson, "Supply Chain Management: Evolving Beyond Linear Interactions," 1.
[4] Narasimhan and Kim, "Information System Utilization Strategy for Supply Chain Integration," 52.

In the Asia Pacific region, the top technologies used were for transport management and export/import/forwarding/customs clearance.[5] The best SCM applications are RFID-ready and can synchronize all of these functions with customer orders.

Figure 12.3
Radio Frequency Identification



A Radio Frequency Identification (RFID) system consists of a tag, placed on whatever object is being tracked, and a reader that sends out electromagnetic waves. The tag sends waves back to the reader, which it converts into digital data indicating the location of the object. Unlike bar codes, RFID tags do not require line of sight or a human interface to be read. RFID is particularly valuable for freight transport because it can communicate the following information and more: origin, destination, route, owner, weight, temperature, product type, repair status, expiration date, and customs clearance status.

Technology is essential for supply chain integration, but internal upgrades in logistics processes must precede external integration with suppliers and customers.[6] When firms upgrade internally and externally by introducing information technology to the supply chain, they see notable results: better efficiency and flexibility, the ability to identify optimal inventory levels (and thus increased inventory turnover), a reduction in warehouse space, higher quality products, enhanced productivity, reduced delivery times and costs, enhanced competitiveness, and positioning for further growth. For these to occur, though, it is necessary to establish a total supply chain network with an integrated database (Supply Chain Enterprise Portal) capable of supporting each function.[7]

IT, when applied to customs formalities, facilitates the import process by standardizing inspection and evaluation procedures. Some ports and customs bureaus remain stuck in the paper age, while many others are moving toward paperless systems. A number of nations have undertaken customs modernization programs to achieve paperless trade, a practice that has been encouraged by international organizations such as the World Customs Organization and the United

[5] Langley, Allen, and Colombo, “Third-Party Logistics: Results and Findings of the 2003 Eighth Annual Study,” 13.
[6] Narasimhan and Kim, “Information System Utilization Strategy for Supply Chain Integration,” 54.
[7] Ibid., 51.

Nations Conference on Trade and Development (UNCTAD). Paperless documentation submissions are also an excellent way to safeguard against corruption in the system. However, in order for paperless trade to fully develop, e-commerce must become fully legitimate and be recognized by governments. An important first step in this process is for governments to recognize the legality of the e-signature.

IT offers myriad opportunities for the freight logistics industry; FLPs who ignore its many offerings are not likely to survive. However, while the virtual world may be shrinking and becoming accessible to anyone with a website, the distance of 9,585 kilometers from London to Tokyo remains constant. We cannot yet beam goods to another location electronically. Thus, while physical operations are the less glamorous side of e-commerce, they remain the fundamental element of the process.

IT is a seemingly invincible weapon and it gives some people great confidence. However, it is only a tool, a catalyst (though an immensely powerful tool). Ultimately the onus lies upon people, not on technology, to make business more efficient. Without requisite professionalism, plus a basic knowledge of equipment handling, new international conventions, and ever-changing regulations, the FLP is walking on a virtual minefield—whether or not he has the latest SCM applications at his side. Logistics today is essentially the efficient management and handling of information at all points in the supply chain. Real time, accurate and customized data communication is paramount to the entire business, and it is the successful management of this information that sets the winning FLP apart.

Issa Baluch is Chairman and CEO of Swift Freight International in Dubai, United Arab Emirates, and Immediate Past President of the International Federation of Freight Forwarders Associations (FIATA). He is the author of Transport Logistics: Past, Present and Predictions*. (www.transportlogistics.com)*

Works Cited

Langley, C. John, Gary R. Allen, and Mark J. Colombo. “Third-Party Logistics: Results and Findings of the 2003 Eighth Annual Study.” Capgemini, Georgia Institute of Technology, and FedEx Supply Chain Services, 2004.

Narasimhan, Ram and Soo Wook Kim. “Information System Utilization Strategy for Supply Chain Integration.” *Journal of Business Logistics* 22, no. 1 (2001): 51-75.

Peterson, Karen. “Supply Chain Management: Evolving Beyond Linear Interactions.” Gartner, February 7, 2003.

Ross, Tony, Karl B. Manrodt, and Mary Collins Holcomb. “Operations Excellence: the Transition from Tactical to Adaptive Supply Chains. Year 2003 Report on Trends and Issues in Logistics and Transportation.” Capgemini, Georgia Southern University, and University of Tennessee, 2003.