GLOBAL FREIGHT FORWARDING

OVERVIEW OF THE GLOBAL FORWARDING SECTOR AND ITS IMPACT ON GLOBALIZATION

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This industry white paper explores the global forwarding sector. Firstly, it scopes an overview of the market size, revenue, growth forecasts and market shares. It then examines the latest developments in globalisation and identifies some key considerations for freight forwarders.
The global freight forwarding market has experienced considerable volatility in recent years, resulting from a range of factors including slow economic growth, supply-demand imbalances, oil price fluctuations, shorter supply chains, modal shifts and rate pressures.

A) Global Freight Forwarding – Market Overview

According to leading industry market research firm Ti (Transport Intelligence), the total value (revenue) of the global freight forwarding market in 2016 was USD 141.9 billion, reflecting year-on-year growth of 2.7%, with cargo volume growth estimated at 2.6%.

This represents some modest improvement over 2015, for which Ti reported 2.1% growth in revenue and 2.0% growth in volume.

Their forward outlook is rather more optimistic, with a forecast 2016-2020 compound annual growth rate (CAGR) of 4.1%, resulting in total market size of over USD 166 billion in the year 2020.

Figure 1 - Global Freight Forwarding Market (Source: Ti)
The modal share between air freight and sea freight of the dollar value of global forwarding remains fairly consistent at a ratio of 52:48, with air representing 52% of total freight forwarding revenues and sea representing 48%.

Across many thousands of service providers, almost 60% of the global freight forwarding market is controlled by the top 20 global forwarders, resulting in an available market for all other forwarders of almost 57 billion USD dollars (40.5% of the total market).

Ti’s analysis of the top 20 global forwarders reported that the majority experienced declining year-on-year revenues in 2016, despite some growth in freight volumes. Market pressure on freight rates caused the revenue declines – exacerbated by the continued imbalance between supply and demand, particularly prevalent in the ocean freight sector. Ti reported that during 2016, Maersk’s average rate per TEU declined by 18.7%, and that IATA data suggested the average global air freight rate declined by 12.5%.

Figure 2 - Global Forwarding - Forwarders’ Market Share (Source: Ti)
The major regions of Europe, Asia Pacific and North America dominate the geographic share, together representing 86% of the global market.

**Figure 3 - Global Forwarding Market by Region 2010-2020 (Source: Ti)**

**Figure 4 - Global Forwarding 2020 Share of Value by Region (Source: Ti)**
A) Gloomy Forecasts for 2017

For 2017, the World Trade Organisation (WTO) forecast global trade volume growth of 2.4%.

Whilst an encouraging increase on the 1.3% trade growth seen in 2016, it remains well below the global GDP growth predictions of around 3%, reflecting how trade growth has fallen behind GDP growth.

In the WTO’s 2017 annual report, Director General Roberto Azevêdo cautioned:

“These are challenging times for global trade. Economic growth is low; trade growth is low; the threat of protectionism cannot be ignored; and we struggle with the persistent challenges of poverty, inequality and under-development.”

B) Proliferation of Free Trade Agreements

In the absence of the truly global free trade agreement (FTA) long pursued by the WTO, individual economies have been negotiating their own bilateral or multi-lateral free trade agreements, with over 400 different FTAs notified to the WTO since 1995.

The impact on international trade – and the related freight flows – is that companies are more frequently reconfiguring their supply chains in order to take advantage of the prevailing portfolio of FTA privileges. To ensure the lowest possible duties and taxes, companies are ‘tariff-engineering’ their export-import goods movements in relation to the most advantageous FTA frameworks.

C) Protectionism on the Rise?

At the same time, populist protectionist sentiment has been on the rise – as witnessed for example with the Brexit and Trump electoral outcomes – increasing the use of trade-restrictive measures such as tariffs. From 2008-2016, over 2,900 trade-restrictive measures were imposed by WTO members, more than half of them by G20 countries – and only 740 measures were removed.

As WTO Director General Roberto Azevêdo articulated to world leaders at the 2017 World Economic Forum in Davos:

“The net positive effect of trade means nothing if you’ve lost your job. So we need better domestic policies to support people and get them back to work”
D) Off-Shoring to Near-Shoring to Re-Shoring

Rising labour rates in China and elsewhere in Asia have been gradually eroding the manufacturing cost advantage over developed markets. More and more companies in the USA and Europe are considering moving some of their off-shored production closer to home (near-shoring); or, in fact, bringing production all the way home to produce in the domestic market (re-shoring or on-shoring).

Whatever the terminology, it involves the repatriation of manufacturing activities from remote locations such as China, to geographic regions much closer to the end consumer market.

Near-shoring leverages lower-cost production locations close to the final consumption markets – for example, Mexico for North America and countries like Poland and Hungary to serve Western Europe. North Africa is now also on the agenda as a production base from which to serve the European markets.

Re-shoring initiatives are politically very popular and gain much kudos amongst local communities for resurrecting domestic manufacturing and creating jobs. Developed economies offer easy and economic access to the efficiencies of automation, if required, together with newly available, lower-cost energy sources from the domestic market. With the wide availability of labour seeking gainful employment, coupled with local government incentives and subsidies for job creation, many multinational companies are exploring their re-shoring and near-shoring options, conscious of the increasing challenges and costs of operating complex global supply chain ecosystems.

Hence, for some businesses there will be some – not all – production activities that migrate ‘closer-to-home’, adopting near-shoring strategies that result in supply chain ecosystems configured as ‘Made in North America for America’, or ‘Made in Eastern Europe for Europe’.

All these factors are resulting in a trend beyond globalisation, to more regional supply chains.

E) Benefits of Regional Supply Chains:

- Shorter distances result in lower transportation costs
- Closer-to-home is easier to manage (overcomingsome of the challenges of managing across time zones, languages, cultures, business practices and work standards)
- Better control over product quality through proximity to suppliers
- Mitigates impact of rapidly increasing labour rates, in what were ‘low-cost’ environments
- Improved ability and responsiveness to tailor product for local consumer markets
- Reduces supply chain risk: less distance, fewerborders, fewercomplications, less risk

However, this is definitely not the end of global trade, with more than 50% of the total traded goods value coming from the combined intra-regional trade flows in Asia Pacific, Europe and North America.
KEY CONSIDERATIONS FOR FREIGHT FORWARDERS

This trend ‘beyond globalisation’ towards more regional supply chains has implications for all stakeholders – a combination of challenges and opportunities. From the freight forwarder perspective, here are some of the key considerations:

A) Advocacy for Free Trade

As the voice of the forwarding industry, the International Federation of Freight Forwarders Associations (FIATA) issued a public statement in February 2017 entitled ‘Freight forwarders, logistics, and the building blocks of free trade’:

“Freight forwarders and logistics service providers have decided to speak up to reinforce the benefits of the open, liberal and global trading system which has been built in the last few decades and has ensured better living conditions to the vast majority of humanity.

As principal trade facilitators, freight forwarders and logistics service providers are spurred by free trade and have a key role to play in increasing the sustainable, affordable development of our economies.”
**B) Shorter Supply Chains, Fewer Cargo Miles**

The regionalisation of supply chains, whereby shippers gain the benefits of using less fuel, saving costs and reducing emissions, results in less long-haul transport and more short-haul carriage.

The largest and fastest-growing trade flows are intra-regional, where cargo transportation distances are considerably shorter than intercontinental routes, thereby impacting total cargo miles.

Cargo movements will tend to become shorter transit distances, but could well result in more actual journeys.

**C) Increased Modal Shift from Reduced Speed Differential**

The shorter the distance then the smaller the relative speed-advantage of air freight versus slower, cheaper modes of transport such as ocean freight.

On trans-Pacific cargo flows, the speed differential is measured in weeks – for example, a transit time of 4-5 days by airfreight versus 3-4 weeks by ocean freight.

With the shorter distances involved in intra-regional trade, sea freight may take only a few days longer than the significantly more expensive air freight – for example, 5-7 days by water, versus 2-3 days by air.

Furthermore, intra-regional supply chains across contiguous land borders will lend themselves to cost-effective ground transportation networks (where available), resulting in rail or trucking solutions for cargo movements – at the expense of international air and sea freight.

**D) More Domestic Freight Moves in Local Supply Chains**

On-Shoring and Re-Shoring increase domestic freight movements.

According to logistics investment advisers Stifel, when the product is produced entirely within a continent or country, the freight will be touched domestically 8-12 times.

This compares to just 2-3 times that the freight will be touched domestically when the product is imported from overseas production.

Hence, localised production will generate more domestic cargo movements, at the expense of long-haul international freight.
E) Navigating FTA Complexities Needs Specialist Expertise

The ever-expanding spaghetti bowl of free trade agreements – and related compliance requirements – generates demand for expertise in dealing with multiple tariffs, standards and regulatory regimes.

Attempting to comply with and keep track of numerous, overlapping trade frameworks creates a burden of cost and risk for shippers.

Companies will look to their service providers for expert advice and guidance on optimal freight forwarding solutions that legitimately minimise their exposure to duties and taxes, whilst ensuring compliance with multiple agreements.

F) Customer Proximity Becomes More Important than Size

GDP growth in emerging and developing economies as a whole is projected to reach 4.8% in the next year, which will spur the development of new consumer markets in Asia, Africa and Latin America.

As regional supply chains move production closer to the new consumer markets across emerging economies, shippers will need specialist expertise from local service providers with on-the-ground presence.

Therefore, for freight forwarders in these emerging consumer economies, customer proximity and local knowledge will become more important than size.

G) Asia Remains Pivotal to Cargo Volume Growth

Amongst all the discussion about regional supply chains and speculation about the impact on international freight flows, Asia remains absolutely pivotal to continuing growth in cargo volumes.

Ti’s online survey in June 2017 asked freight forwarders, 3PLs, shippers and ocean carriers to rank the three air and sea global trade lanes they consider to offer the best prospects for volume growth over the next five years.

Asia-related trade lanes dominated the results, offering the best opportunities for volume growth in both air freight and sea freight:

Figure 6 – Trade lanes offering best prospects for volume growth (Source: Ti)
Whilst being a vast market (150 billion dollars) with healthy growth (CAGR 4.1%), the global forwarding sector is experiencing structural change resulting from recent developments in globalisation, including anaemic economic growth, some resistance to free trade, and a trend towards more regional supply chains.

Outside the top twenty global providers, global forwarding represents a USD 57 billion market opportunity for freight forwarders of all shapes and sizes.

For the SMB (small and medium-sized business) forwarders, their inherent agility, flexibility, and customer service focus will continue to differentiate them from the global giants; whilst their asset-light business models that thrive on knowledge and networks will remain a key source of competitive advantage.

References:

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• Freight Forwarders, Logistics and the Building Blocks of Free Trade, FIATA, February 2017

Mark Millar is one of Asia’s foremost speakers and a renowned authority on supply chain and logistics.

He leverages over 30 years’ global business experience to provide value for clients with informed insights and independent perspectives on their supply chain and business development strategies in Asia. Whether as keynote speaker, trusted advisor, commissioned author or visiting lecturer, Mark delivers the knowledge that helps you make better-informed business decisions.

Clients have engaged Mark as Speaker, Moderator, MC or Conference Chairman at more than 450 corporate events, customer functions, management briefings and industry conferences across 26 countries.

Mark’s book ‘Global Supply Chain Ecosystems’ – commissioned by leading business publisher Kogan Page of London – has been purchased in more than 45 countries around the world.

His commitment, passion and active industry contributions have earned many accolades, including Mark being recognised as one of “Asia’s Top 50 Influencers in Supply Chain & Logistics”, in the “China Supply Chain Top 20”, as “One of the most Progressive People in World Logistics” and in the USA Listing of “Top Pro’s to Know in Supply Chain”.

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