Freight Forwarders: Thinking Outside the Box

Given its size, profitability, and expected growth rates, freight forwarding is among the most attractive segments in the North American transportation services market. Staying attractive, however, will require addressing some strategic imperatives.
Freight forwarding is rebounding from the economic meltdown. In North America, the segment earns annual revenues upwards of $40 billion, operating margins up to 30 percent of net sales and, over the next five years, is expected to see 10 percent or more in annual revenue growth (see figure on page 3). But the market is still fragmented—with a mix of global providers, thousands of small competitors, and a rash of market forces disrupting business as usual. These disruptive forces range from shifting demand patterns, more complex and global supply chains, and an evolving customer base (as new customers from developing countries enter the market and traditional customers seek to reduce costs), to changing relationships with shippers; relationships change as forwarding becomes commoditized and switching costs are no longer relevant.

The more services the forwarder provides, the “stickier” its relationship with the customer.

Unless these industry dynamics are addressed and soon, freight forwarders will be condemned to competing in an industry in which slashing prices is their only competitive option. To ensure both medium- and long-term survival, we believe freight forwarders have several strategic imperatives:

- Protect revenues with innovation—develop a “sticky,” differentiated offering
- Maximize profits by adapting the offering to serve the most attractive customer segments
- Win new business by attracting new customers in developing markets
- Avoid commoditization by adding value-added services to the offering

Strategies for attending to these imperatives can be found in our Freight Forwarding Profitability Framework. They include the following:

1. Capitalize on Size

Size matters for all of the well-known reasons: Larger forwarders get better rates from carriers, can book capacity well in advance (their ongoing large bookings are dependable business), and receive preferential treatment if it is ever necessary to move a load as carriers usually find space for their larger clients. And size dilutes fixed costs because carrier management—and to a lesser extent customer service—is scalable.

2. Establish Focus and Critical Mass by Region and Industry

Freight forwarders that focus on gaining critical mass by region and industry develop a level of operational and market expertise well beyond their competitors. They also deliver a more competitive product beyond the reach of unfocused rivals.

Forwarders that serve a region gain administrative and marketing expertise about that region, which translates into higher profits. This knowledge is a competitive advantage compared to the lesser information accumulated by forwarders that serve all regions equally. In addition, forwarders that also concentrate on one industry vertical typically enjoy the most success. They become experts in moving specific products, which is an advantage in gaining and retaining new business.
3. **Bundle Freight Forwarding with Customs Clearance**

A shipper is more likely to maintain a relationship with a company that furnishes both freight forwarding and customs clearance services. On average, customs clearance customers have longer relationships with their providers. Other advantages to bundling services: (1) shippers tend to be less concerned about the forwarding fee, and (2) the freight forwarder has an opportunity to learn more about the shipper’s international flows and transportation needs, which can open up additional business opportunities.

4. **Expand Relationships**

As more shippers seek to improve the costs and services of their logistics operations, forwarders can capitalize on this—expanding the relationship by offering sophisticated value-added services that go beyond forwarding and customs clearance. For example, a forwarder that manages a shipper’s supply chain could become the go-to provider for resolving major logistics issues, or even have some influence in its transportation decision-making process. The more services the forwarder provides the more influence it wields, and the stronger and stickier its relationship with the customer.

5. **Develop Best-in-Class IT Capabilities**

Shippers either lack sophisticated, well-run IT logistics systems or suffer from poor IT links with their logistics providers. So, they often welcome IT assistance in managing their logistics operations. This is where forwarders can use IT to differentiate their service offerings from competitors.

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**Figure**

**The North America transportation market**

**Revenues, 2012**

($ billions)

*Note: 3PLs are third-party logistics firms.*

*Sources: American Trucking Associations (ATA); CSCMP; Stifel Nicolaus; IBISWorld; A.T. Kearney analysis*
Leading freight forwarders offer high value-added IT solutions across the entire supply chain, providing solutions that meet three requirements: They adapt IT to the shipper’s reporting requirements, manage the shipper’s IT, and provide a cost-competitive IT option. The forwarder’s IT solutions can also connect to the IT systems of the supplier’s suppliers—generating a difficult-to-break link with these companies.

6. Become Customer and Sales Oriented

Best-in-class freight forwarders have a customer- and sales-oriented culture—which is often the key to winning and expanding relationships with suppliers. Freight forwarders hoping to become industry leaders can start by implementing a similar culture and addressing the two customer-service attributes shippers most want from forwarders: speed in resolving issues and a single contact with whom they can work.

Hand-in-hand with this customer orientation is the need to operate a dynamic sales organization. A top-level sales force possesses the skills and talents to propose new solutions, generate additional revenues, and build stronger customer relationships.

Becoming Best-in-Class

The major market challenges that freight forwarders face today are becoming even more daunting as their basic services turn into commodities and the competition gets more intense. To become a best-in-class company in this environment requires thinking and performing outside the box.

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