

FREIGHT FORWARDING: Choosing the best

With President Obama continuing to emphasize exports, specialized shipping intermediaries are more important than ever to global logistics operations. But how do shippers identify and choose the right freight forwarder?

BY PATRICK BURNSON, EXECUTIVE EDITOR

Lost in all the recent discussion of what differentiates a 3PL from a 4PL, comes the question: Whither the common freight forwarder? Once charged with simply arranging the movement of goods through Customs clearance, the role remains in what some experts call “deeper shades of grey.”

“Third- and fourth-party logistics providers are always freight forwarders,” says Shay Scott, director of the Global Supply Chain Institute (GSCI) at The University of Tennessee. “But it’s never the other way around.”

Nor should it be, he adds. Given that not every shipper faces the complexity of penetrating a new global market or extending its existing supply chain across vast “borderless” regions. “A lot of logisticians are taking issue with economists who say the world is flat,” he says. “We know that globalization has been vastly exaggerated, and that relying on a ‘mega-forwarder’ is not always the distribution answer.”

Shay points to the work of Pankaj Ghemawat, of IESE Business School in Spain, who recently authored the book, *World 3.0*. In it, he notes that the number of American companies with any foreign operations is vastly overstated, and that exports remain a relatively small part of GDP.

“So while some Fortune 500 companies really do need a FedEx Trade Network, or UPS Logistics, or a Penske, many other U.S. exporters only require a basic forwarder,” says Shay.

But that doesn’t keep forwarders from over-promising on their services, he adds.

“Thirty years ago, a small trucker would call itself a freight forwarder,” Shay says. “Then they’d build a warehouse and call themselves a 3PL. And if that worked, they’d offer consulting and call themselves a 4PL. It’s all become rather confusing...and often unnecessary.”

What is necessary, however, is finding the right forwarder for “niche” shipping, says Shay. He notes that U.S. companies doing business in Mexico, for example, might be better off with a small forwarder located near the border. The same holds true for shippers of specialized commodities like pharmaceuticals or hazardous materials.

“The shipper’s focus should not be on the country he’s trying to enter, but the port of entry,” says Shay. “And many of the smaller forwarders have better relationships with Customs at these stations than the bigger players.”

DUE DILIGENCE

At the same time, say other industry experts, smaller forwarders may provide a better price point and speed of delivery, too. According to Rosalyn Wilson, senior business analyst at Delcan Corp., a supply chain consultancy in Vienna, Va., picking the right global freight forwarder still involves considerable diligence.

“Imagine your goods have gotten stuck somewhere en route—perhaps the paperwork wasn’t filed correctly because the regulation has changed, or the promised transportation service didn’t materialize,” she says. “The delay can hit your bottom line in terms of dollars, but can also damage the reputation of your product or company.”

partner



According to Wilson, a good freight forwarder will be an asset to the shipper, allowing them to focus on their core competencies. Therefore, she says, it is worth the time to thoroughly research options and choose the forwarder that fits their needs now and in the future.

“Probably the most important factor to consider is experience with the types of products you ship and familiarity with the routes you use,” she says. “A good forwarder should be experienced enough to be able to balance your speed and

cost requirements, offering a range of shipment choices—ocean, truck, rail, barge, or plane.”

Wilson advises shippers to narrow their shortlist to those with impeccable track records as well as those that keep completely up to date on changing regulations and reporting requirements. She says shippers should know the condition and service levels of the carriers they use, and have a deep knowledge that matches their needs.

“For instance, if your product requires refrigeration or other special handling, find out about their experience with these types of shipments,” says Wilson. “If your shipment involves hazardous cargo, does the forwarder have certified and trained staff on both ends of the move to manage your shipment?”

She also encourages shippers to ask if the forwarder has offices, partners, and employees around the globe—local agents in the origin or destination country or city to ensure that the cargo was handled correctly.

GAIN VISIBILITY

Other supply chain analysts stress that forwarders must provide a “visibility network” in any offering they provide.

“I would say that today’s integrated logistics capability puts a premium on visibility and information,” says Greg Aimi, director of supply chain research at Gartner. “Visibility for tighter control of processes supporting leaner and leaner inventory strategies prevents exceptions from occurring where possible.”

Aimi also maintains that shipper and forwarder should have shared tracking and tracing systems for capturing data. This is vital, he says, because companies want to be able to analyze processes for continuous improvement opportunities. “So making sure that your forwarder’s IT systems are capable is another factor worth considering,” he says.

Charles Clowdis, Jr., managing director of transportation consulting and advisory services at IHS Global Insight, agrees with Aimi, noting that with the rapid changes in supply chain methodology, attention to detail, especially in your forwarder’s IT capabilities, is critical.

“Certainly, selecting a forwarder who knows your product and its most efficient transport options is also important,” he says. “Furthermore, selecting a forwarder who can measure costs versus delivery requirements is vital to controlling a budget. I would add that proper documentation and compliance with any pertinent regulations should be a given.”

Clowdis adds that these key elements should be supported by a robust visibility network that allows the forwarder to see each incremental step along the supply chain and to react to any event “affecting the smooth and

scheduled flow of shipments...and support contingency options should the need arise,” he says.

CREATING THE CHECKLIST

All three of our analysts come to the same conclusion regarding a strategic plan for evaluating forwarders and advise creating a basic checklist before making a final decision.

For starters, the forwarder must be

payment record.

- Is the forwarder large enough, with ample staff and facilities to handle your needs?

- Can the forwarder ensure visibility of your shipment as it moves through the supply chain?

- Do they have the market buying power to get you space, without the premium price?

- Do they have customs-bonded warehousing allowing your goods to be stored without taxes and duties being paid improving your cash flow and stock management?

- Are they also customs brokers? Do they have an Automated Broker interface to U.S. Customs?

- Do they offer comprehensive cargo insurance to cover all risks, including loss and damage?

- Do they offer consolidation services to reduce costs?

- Do they offer door-to-door, destination port/airport-to-door?

- What services are considered ancillary and how do they charge for those services?

Wilson, Clowdis, and Aimi all certainly agree that a shipper should ask for references, for both their forwarding business in general and specific references for the product, markets, and services that the shipper will be using.

“It’s critical to find out how long they have been operating and how well established they are in your target markets,” says Wilson. “But once you have a good forwarder, the temptation will be to use them for everything. So, make sure to evaluate if your shipment really needs that level of service or if a standard courier service would work just as well at a lower cost.” □

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The EU Definition

While there remains considerable confusion over how a freight forwarder differs from a 3PL, 4PL, or the newly coined “lead logistics provider,” the International Federation of Freight Forwarders Associations (FIATA) has come up with a description for assessment that covers the whole range of intermediaries.

“Freight Forwarding and logistic services” means services of any kind relating to the carriage (performed by single mode or multimodal transport means). It also means consolidation, storage, handling, packing or distribution of the goods as well as ancillary and advisory services. This includes—but is not limited to—customs and fiscal matters, declaring the goods for official purposes, procuring insurance of the goods and collecting or procuring payment or documents relating to the goods.

Freight Forwarding Services also include logistical services with modern information and communication technology in connection with the carriage, handling or storage of the goods, and de facto total supply chain management. These services can be tailored to meet the flexible application of the services provided.”

An even more complete description has been recently adopted by the European Association for Forwarding, Transport, Logistic and Customs Services (CLECAT). And just in time, too.

Transport Logistic 2011, the world’s largest trade show examining international logistics, mobility, IT, and supply chain management, takes place in Munich, Germany, on May 10 - 13. A major focus of the conference agenda will be on the entire spectrum of global intermodal movement of goods on the roads, rail, water, and air. *Logistics Management* will be in attendance.

bonded and licensed with all the applicable government agencies. Another strong point would be accreditation under the International Quality Standard ISO9000:2000. Also keep in mind that a forwarder that’s a member of C-TPAT means they have met certain security standards and will ensure a smoother trip for your shipment.

Some other things to check:

- Are they financially stable? Check credit references and check with carriers to be certain that they have a good