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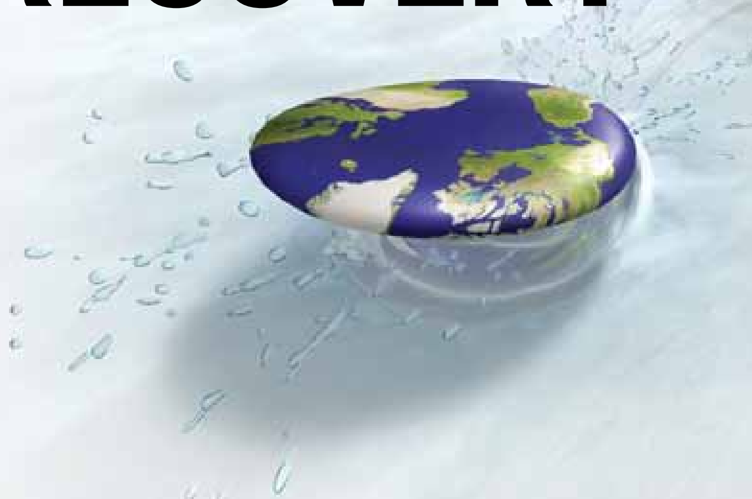

While industry analysts slightly differ on who belongs on the "Top 25" list this year, all agree that the most dynamic freight forwarders are only going to get bigger and smarter as the global marketplace becomes more complex.

By Patrick Burnson, Executive Editor

The old version of the freight forwarder is one who would speak directly with clients and warehouses around the world to arrange the movement and storage of freight. Today, the description of a forwarder has become far more complex.

They now take this information and pass it along to the appropriate party whether that be the carriers, third-party service providers, Custom agents, or the shippers themselves. Along with making certain that the freight gains entry into the country, a forwarder must now arrange for cargo to be picked up and delivered to the final consignee's place of business. This requires contacting trucking companies, rail lines, or even sometimes exporting the goods to a different country for final delivery.

This complexity has created new opportunities for some of the world's leading freight forwarders to upgrade their services and IT capabilities in order to keep up with growing demand. And while industry analysts differ somewhat on just who belongs on the "Top 25" list this year, all agree that the same players are only going to get bigger, smarter, and stronger as the global marketplace spreads into new regions.

Who's at the top?

Research by Transport Intelligence (Ti), contained within its latest report *Global Freight Forwarding 2011*, finds Swiss-based Kuehne + Nagel (K+N) topping the ranking of the world's largest forwarders in 2010 in terms of combined air and sea freight revenues. According to Ti, DHL came in second place.

The leading 10 freight forwarders make up 44 percent of the total market. This share has been gradually increasing—from 40 percent in 2006—as the largest players crowd out smaller competitors. However, the market is still highly fragmented

Illustration by Jean-Francois Podevin

Armstrong & Associates Top 25 global freight forwarders
(Largest providers by 2010 gross revenue and freight forwarding volumes)

A&A Rank	Provider	Net Revenue (US$ Millions)	Gross Revenue (US$ Millions)	Ocean TEUs	Airfreight Metric Tons
1	DHL Supply Chain & Global Forwarding	19,816	30,486	2,772,000	4,435,000
2	Kuehne + Nagel	5,727	19,476	2,945,000	948,000
3	DB Schenker Logistics	9,120	18,999	1,647,000	1,225,000
4	Panalpina World Transport (Holding) Ltd.	1,423	6,887	1,241,000	892,000
5	UPS Supply Chain Solutions	6,462	8,923	700,000	862,000
6	CEVA Logistics	5,670	9,091	672,000	536,000
7	Sinotrans Ltd.	1,044	6,286	6,944,000	384,100
8	Expeditors International of Washington, Inc.	1,693	5,968	879,713	807,211
9	Bolloré/SDV Logistics	1,233	6,163	705,000	500,000
10	DSV A/S	1,678	7,661	710,000	250,000
11	Nippon Express Co., Ltd.	1,476	18,450	330,900	855,400
12	Pantos Logistics Co., Ltd.	2,972	2,972	1,512,444	330,485
13	Yusen Logistics Co., Ltd.	2,400	3,814	600,000	500,000
14	Agility	1,701	5,266	550,000	490,000
15	Kintetsu World Express, Inc. (KWE)	468	3,057	465,047	869,225
16	Hellmann Worldwide Logistics GmbH & Co. KG	937	4,687	407,665	513,278
17	UTi Worldwide Inc.	1,556	4,550	476,000	421,000
18	Damco International A/S	1,200	2,700	610,000	75,000
19	Geodis	1,673	5,578	385,000	152,000
20	C.H. Robinson Worldwide, Inc.	1,467	9,274	258,756	45,000
21	Kerry Logistics	840	1,400	576,000	158,900
22	Logwin AG	1,333	1,801	430,000	170,000
23	Toll Holdings Limited	4,200	5,303	185,000	130,000
24	Hyundai GLOVIS Co., Ltd.	6,303	6,303	247,545	34,819
25	Sankyu Inc.	490	2,341	710,000	18,060

with K+N holding just under one tenth of the total.

Largest, however, does not necessarily mean the most profitable, says Ti analysts. Expeditors enjoys margins of over 9 percent compared with most of the largest companies, which operate at margins between 2 percent to 4 percent.

According to Ti CEO John Manners-Bell, the market will enjoy another successful year in 2011. “Forwarders are enjoying somewhat of a golden period,” he says. “Air and sea volumes are still growing albeit not as rapidly as last year. In addition to this, extra capacity brought on by shipping and air carriers has meant that rates have softened, meaning that forwarders’ gross margins will expand.”

Dick Armstrong, chairman of supply chain consultancy Armstrong & Associates, says that his research came to many of the same conclusions. “We had DHL ahead of K+N in our net-earnings picture, but the leading providers are really in very heated race at the top,” says Armstrong.

He adds that there’s a certain paradox when considering that most of the strongest performing companies are from Europe when most of the actual business is generated in the Asia Pacific arena. “And don’t expect to see any startups get into this picture,” he says with a laugh. “The barriers to entry are incredibly high, and it would take vast amounts of money and other resources to penetrate this market. The capital outlay for technology alone is overwhelming, and finding the right people to create the network would also be a daunting task.”

According to Armstrong, the top forwarders are simply an extension of global third-party logistics providers (3PLs). Given the huge scale of these operations, it should come as no surprise that they would have the leverage to compete for market dominance.

“And that includes human resources as well,” says Armstrong. “Expeditors, for example, lost a number of high-earning sales executives in the past couple of years. To the company’s credit, they kept faith with their staff by not having lay-offs during the recession. However, by reducing the commissions paid to top performers, they effectively got closer to other dynamic competitors like UPS.”

These “top performers,” says Armstrong, are selling complete supply chain packages in their sales pitch. This includes value-added warehousing and transportation management. “The leading forwarders are going to replace old fashioned sales activity with incentive based pay structures,” he says. “And this, in turn, will reward innovation.”

Is it a "closed" market?

Brandon Fried, executive director of The Airforwarders Association, agrees with most of Armstrong's conclusions, but takes issue with the "closed" market theory. He contends that "the barrier to entry" into the freight forwarding business is *not* insurmountable, noting that for those forwarders with a defined business plan focused on specific niche marketing, there's still room at the top.

"The days of opening a generalized freight transportation business by the small guy may be over in favor of a more focused and specific transportation approach," says Fried. "Of course, this includes offering additional services that complement the transportation of the box itself. These may include warehousing, local distribution, pick and pack, or some form of commodity assembly before shipping. However, the sensitive, personal touch is always in demand and appreciated by customers who are not willing to be an anonymous entity with their freight company."

Fried says that while each of the "giant" forwarders do interesting work, K+N tends to receive lots of coverage for its creative shipment fulfillment solutions before or after the transportation cycle occurs. "However, we cannot fail to mention companies like Expeditors," he says. "This is an outfit that is highly regarded by their customers and continues to receive accolades—not only from clients but Wall Street as well. The firm is highly profitable in a very competitive, asset-free environment."

Faster future?

While many of the analysts have reported fairly rosy times over the past year, many of the leading forwarders are still cautiously optimistic about their prospects for the remainder of 2011 and into 2012.

"I am pleased with the high organic gross profit growth in our reporting regions of North and Latin America, as well as the Asia Pacific," says Panalpina's CEO Monika Ribar. "This year has taken its toll on the volume development, however."

She adds that after Panalpina terminated certain high-volume, low-margin contracts, the company was not able to compensate for these volumes fast enough with new business. "The market slowdown in the second quarter of 2011 did not help in this regard," says Ribar.

UPS, a company that Armstrong calls "the 800-pound gorilla of supply chain services," is equally circumspect. "Despite softening economic conditions, UPS delivered its highest ever second quarter earnings per share," says Kurt Kuehn, UPS's chief financial officer. "These results were driven by the quality of revenue in U.S. domestic, superior export volume growth in international, and record supply chain services and freight results."

CEVA's CEO, John Pattullo, notes that the company's performance in the second quarter demonstrates a solid continuation of positive trends over the past year. "Despite the industry-wide softening of freight volumes, we have increased freight management

Advantage Asia

The leading forwarders agree that the dynamism and complexity of the Asia Pacific transport and logistics market offers the best prospects for growth and returns. This also happens to be one of the key conclusions of *Asia Pacific Transport and Logistics 2011*, the latest report from Ti.

"While logistics companies in Europe and North America are coming to terms with a long-term weak economic environment, Asia offers many more opportunities," says Cathy Roberson, the report's principal author.

The report identifies three key drivers of growth:

1. The rapid development of the Chinese economy shows little sign of slowing, and its progression from low-cost manufacturing base to high-value production location is marking a new stage in its evolution. As labor costs rise in China, production is spilling over into neighboring, lower cost markets. Both trends offer numerous opportunities to freight forwarders and contract logistics providers.

2. The Integration of the leading Asian economies is proceeding fast with free trade agreements reducing barriers to international commerce. Logistics companies can increasingly view parts of the region as a "single market."

3. Governments throughout the region are investing in numerous transport infrastructure projects as intra-regional trade increases, facilitating the provision of logistics services. Emerging countries such as Laos, Cambodia, and Sri Lanka have seen major boosts in their economies as the number of manufacturing operations increase and disposable income rises.

Consequently, these countries are rapidly ramping up projects to build airports, roads, and rail networks in order to compete in the global economy.

"Although the region will remain an export leader for years to come, the growing intra-regional trade is creating an intricate supply chain, particularly as China advances to more skilled manufacturing and lower-value production migrates to other Asian countries," says Roberson. "Growth in contract logistics, express, and freight forwarding services is expected to maintain double-digit increases through 2014 with China and India leading the way."

Bimco, an independent international shipping association based in Bagsvaard, Denmark, is also reporting that increasing freight rates on the Far East—Europe trading lane is "a very positive sign."

Bimco's chief shipping analyst, Peter Sand, says that at the same time, however, rates will continue to decline "on the forward curve" in the transpacific trade. Staying ahead of the "forward curve" could be good advice for freight intermediaries, too, say industry analysts.

Top 25 forwarders, they say, will continue to invest in the future as demand for their services swings back into a global pattern of economic recovery.

—Patrick Burnson, Executive Editor

business with our global customers, and we have experienced growth in our contract logistics business in all regions," he says. "Our new business performance in the period has been excellent with significant wins and contract extensions."

According to Armstrong, CEVA's reliance on heavy machinery has been a plus, particularly while it continues to expand into other markets. The company is hardly alone in this regard, however.

"We're continuing to grow and have kept the positive momentum of the last quarters," says Frank Appel, CEO of Deutsche Post DHL. "The second quarter once more proves the quality and sustainable nature of the efficiency gains we have achieved over recent years."

According to Appel, all DHL divisions continued to benefit from the ongoing, albeit slow global economic growth, as well as its market position in the world's fast growing regions—particularly in Asia. ☐

—*Patrick Burnson is Executive Editor of* Logistics Management