

TRADE LOGISTICS 101

AN INTRODUCTION TO FORWARDING

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Export America

As the world economy recovers, opportunities increase for U.S. companies to export their products. But international shipping remains daunting for many new or relatively inexperienced exporters, particularly small and medium-sized firms. To assist these firms, we offer the first in a series of articles about international trade logistics.

WHAT IS A FREIGHT FORWARDER?

A freight forwarder is an agent who arranges the transportation of goods for others. A forwarder functions as a travel agent for cargo or a designer of logistics. Forwarding includes booking cargo space for shippers, providing shipping documents, and sometimes arranging other services as varied as shipment packing and cargo insurance.

Many forwarding companies offer assistance in transportation logistics, including freight consolidation, customs brokerage, warehousing, distribution, and other value-added services. Further, they operate networks of offices and agents for export and import.

Freight forwarders are generally non-asset-based providers, meaning that they do not own planes, ships, and other means of transport. When forwarders book cargo space for customers, they have the flexibility to choose the best routes and transit

schedules. Forwarders typically have service contracts with many air and ocean carriers to facilitate economical shipping around the globe.

FORWARDING AND INTEGRATING

Some forwarders are integrators. Integrators wholly own or control assets such as planes and trucks that are used for their shipping services. Integrators roughly fall into two categories: integrated express carriers, and integrated heavyweight forwarders. Express carriers transport documents and small packages, while integrated

forwarders transport heavyweight packages and other types of freight.

Vertical integration is costly; airfreight with an integrator tends to be expensive yet often the fastest and most reliable air service. However, integrated service is limited by integrators' inflexible, standardized flight schedules for hub-and-spoke operating systems.

Forwarders, nevertheless, benefit from their status as transportation intermediaries. They are usually much more flexible than integrators in their service offerings, because forwarders



use many different carriers and transportation modes.

Forwarders typically can provide door-to-door solutions or more limited shipping options. Integrators may offer such services as well, but forwarders have a much longer tradition in operating international networks.

In ocean freight, forwarders are the dominant shippers. In airfreight, more than 80 percent of international tonnage comes from forwarders as opposed to integrators. Further, forwarders provide most of the airlines' cargo business, and they also purchase excess capacity on integrators' international flights. Forwarders, given their flexibility, may also book cargo space with all-cargo airlines.

SAVING MONEY AND TAPPING EXPERTISE

Freight forwarders are not courier companies, which are often associated with words such as parcel, express, package, and air. A prudent exporter will find that a forwarder offers more options and usually better rates than a courier for anything other than documents and small parcels—even if the forwarder books cargo space on a courier's aircraft.

New exporters should understand that freight forwarders provide essential assistance in international trade. Forwarders facilitated world trade long before the advent of cargo aircraft and container ships, and this experience overshadows the transportation background of modern couriers and integrators. Further, forwarders' contractual relationships with carriers translate into rates that exporters alone would never find. (A simple analogy is that when we travel, airfare is more economical from an agent, who selects from a variety of airlines and has access to more information and special discounts, than directly from an airline.) Additionally, due to the service contracts and inherent complexity of trade logistics, many carriers regularly work only with forwarders

and similar agents, and not directly with small exporters.

OCEAN AND AIR CARGO

While integrators and couriers emphasize airfreight, forwarders are ready to help determine whether ocean transportation is a viable option. Most world trade (in volume terms) travels by container ship. Airfreight is obviously faster, but it is significantly more expensive: long-distance airfreight rates per kilogram are commonly seven to 10 times higher than long-distance ocean freight rates.

About 40 percent of world trade (in value terms) moves in cargo planes and in cargo holds of passenger aircraft. Airfreight is suitable for perishable goods; it may also include light, high-value commodities such as semiconductors and electronic components essential to running industry or fulfilling an inventory shortfall (and unexpected consumer demand). Ocean cargo often includes goods such as automobiles, toys, and household appliances—items whose bulk, weight, and steady consumer demand allow slow transportation. The question, then, is whether a forwarder can help an exporter ship cost-effectively and yet meet both the production schedule of the exporter and the requirements of the exporter's customers overseas.

Freight consolidation offers additional savings. Exporters need not have the cargo to fill a standard air or ocean container in order to benefit from the cost savings full loads have over individual shipment rates. For instance, freight forwarders may combine the individual shipments of several exporters, thereby obtaining a full container rate from a carrier. Although the forwarder of course marks up the carrier's freight rate to sell cargo space to his customers, individual exporters benefit from a significantly reduced rate for individual shipments in a consolidated load. Alternatively, an exporter with a full load again receives the benefit of the forwarder's container rate.

Considering the Options

Effective use of transportation equipment and modes reduces shipping and logistics costs. However, export planning entails all sorts of considerations, from inventory levels and manufacturing lead times to customers' preferences and transportation options. Ocean export is generally much cheaper than air export, but the transits from warehouse dock to consignee door are measured in weeks instead of days.

Freight forwarders can assist exporters in choosing and managing transportation, particularly if both parties are flexible and forthcoming. To facilitate rate quoting and mode selection, exporters should be prepared to answer a host of questions about these and related issues:

- Commodity (description and use)
- Destination (ports/cities)
- Pieces, weight, dimensions
- Terms of sale
- Terms of payment
- Number/frequency of shipments
- Routing/transit requirements
- Insurance requirements.

Further, when comparing different modes of transportation, these are some of the issues to consider:

- Speed
- Frequency of shipments
- Cost
- Dependability
- Capacity
- Availability/accessibility
- Additional/special services.

It's More than Just Shipping Something Out of the Country

Freight forwarding encompasses dispatching shipments on behalf of others to facilitate shipment by a common carrier. The services of a forwarder may be very extensive and are often essential to getting an exporter's goods from the United States to an overseas customer. A forwarder not only can arrange export but also (with an overseas office or agent) import, clearance, and delivery.

Service Offerings

Freight forwarding services may include, but are not limited to, the following:

- Booking, arranging for, or confirming cargo space
- Ordering cargo to seaport/airport
- Preparing and/or processing export declarations
- Preparing and/or processing delivery orders and dock receipts
- Preparing and/or processing bills of lading
- Preparing and/or processing consular documents, or arranging for their certification
- Arranging for warehouse storage
- Arranging for cargo insurance
- Expediting shipments in accordance with U.S. government export regulations
- Preparing and/or sending advance notifications of shipments or other documents to banks, shippers, or consignees, as required
- Handling freight or monies advanced by shippers, or remitting or advancing freight, other monies, or credit in connection with the dispatching of shipments
- Coordinating the movement of shipments from origin to vessel/aircraft
- Giving expert advice to exporters on letters of credit, other documents, licenses or inspections, or problems related to the dispatch of cargo.

These forwarding services follow in part the list for ocean forwarders in 46 CFR 510.2.

Industry Standards

The Federal Maritime Commission licenses U.S. freight forwarders for ocean operations. U.S. forwarders may also be affiliated with various industry organizations, the best known of which is the International Air Transport Association (IATA). IATA has approved cargo agents (only airlines can be members of IATA); IATA is not a licensing body.

Forwarders may receive training and certification to ship dangerous goods (also known as hazardous materials). The relevant accreditation comes from bodies such as the International Civil Aviation Organization, the U.S. Department of Transportation, and the International Maritime Organization. ■

Forwarding companies can also help exporters with vendor consolidation, managing purchase orders from one customer that affect multiple suppliers. Depending upon the overseas customer's needs, the forwarder can then arrange individual or consolidated shipments of the suppliers' freight. Similarly, forwarders can assist in planning cost-effective shipments to one area for multiple customers of an exporter, through consolidating freight and arranging unloading, segregation, and delivery of individual shipments by an overseas forwarding office or agent.

FORWARD THINKING

Trade logistics involves planning. Exporters should not only apprise themselves of transportation alternatives but also try to anticipate shipping requirements. Planning tends to reduce costs, particularly if an exporter can consolidate shipments and select slower modes of transportation. Forwarding companies provide an important array of services that facilitate supply chain management. However, exporters should shop around before shipping, asking for rate quotes from several forwarders, integrators, or couriers, depending on exporting needs. Exporters will find that generally freight forwarders have the service and expertise to handle many transportation issues more economically, efficiently, and effectively for regular shipping. ■