

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.

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