
The Changing Role of a Freight Forwarder in Modern Supply Chains

Submitted 17/11/21, 1st revision 02/12/21, 2nd revision 21/12/21, accepted 22/01/21

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Abstract:

Purpose: The aim of the article is to identify and determine the contemporary role of a sea freight forwarder in the face of changing global supply chains. To this end, the article refers to the results of literature studies as well as to previous research and observations derived from business practice in the area of integrated reporting.

Design/methodology/approach: The article presents a statistical analysis of reported demand figures for freight services in Poland. In addition, a SWOT analysis was performed to determine the changing role of freight forwarders. The methodology is supplemented by a case study of the global logistics operator A.P. Møller-Mærsk active in the freight-forwarding market.

Findings: The increasing demand for transport services has prompted the freight-forwarding sector to evolve. Currently, the freight forwarder is no longer a contractor of just one service, but is involved across a comprehensive supply chain, while the industry is already seeing dynamic changes in how it brings together clients and suppliers. The current transformations pose a threat to freight forwarders, as leading shipping operators such as Maersk are expanding the scope of their activities to include freight forwarding.

Practical Implications: The research findings point to the topicality of the problem, where ship owners are choosing to deal with clients directly, therefore bypassing sea freight forwarders. This is evidenced by Maersk's 2021 initiative to launch an online platform integrating supply chains where the mediation of a sea freight forwarder would become irrelevant.

Originality/Value: The research presented in the article contributes to the current literature output on integrated reporting by using the novel data about the forwarding services market.

Keywords: Freight forwarder, maritime transport, supply chain, ship owner.

JEL classification: R41, R42.

Paper type: Research article.

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1. Introduction

Freight forwarding dates back to the fifteenth century, having been directly influenced by the stacking right and obligation to transport good via specific routes. The then existing laws forced the goods to be stacked in all cities along the route that were subject to this compulsion (Ficoń, 2010). Stacking of goods during transport extended the delivery time, which in turn translated into losses for merchants. As a result, the apparent buyer emerged who would submit a declaration of purchase of the goods which still belonged to the original owner. According to K. Ficoń (2010), *"the apparent buyer would send the goods in their own name, but at the expense of someone else and to the destination indicated by the original owner. Furthermore, the apparent buyer also offered mediation in routing, choosing a means of transport, storage and escorting goods"*.

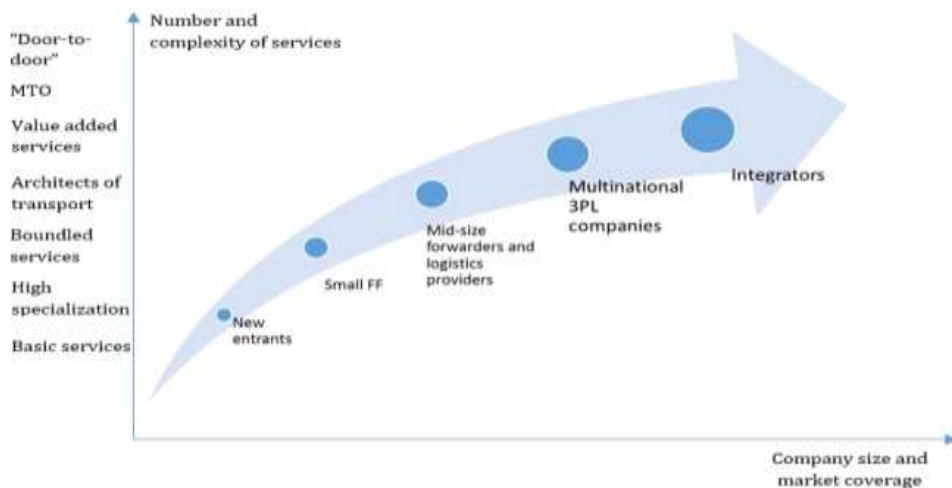
The emergence of freight forwarding is associated with an increase in commodity production and the development of trade and transport. The need for this type of service arises when the buyer ceases to be involved in the process of transporting their goods, entrusting said task to dedicated transport companies. The freight forwarder, with the help of carriers, is to ensure safe transport of the such entrusted goods. The first premise that contributed to the emergence of freight forwarding was the separation of the ownership rights of the goods from the physical provision of the distribution service. The second premise concerned the functional issue that spawned several parties such as carriers, market suppliers or shippers, these last ones representing the demand side of the market (Ficoń, 2010).

Due to the globalization, the logistics sector witnessed a series of structural changes (Marek, 2019). In the face of challenges in carrying out international transport effectively, global players joined forces with a new, tailored logistics service provider, the freight forwarder. Today, the freight forwarder is an active participant in the transport process, mainly concerned with carriage of goods (Petkevičiūtė - Stručko and Yauhen, 2018). The modern approach assumes that freight-forwarding encompasses a number of comprehensive activities and the definitions tend to overlap in many literature sources. At its simplest, freight forwarding is *"a service consisting in organizing the movement of goods using appropriately selected roads, means and methods of transport, so that goods can be delivered from the buyer to the recipient"* (Marciniak-Neider and Neider, 2014).

Equally telling of the industry's complexity is the definition provided by FIATA (the International Federation of Freight Forwarders Associations) that states *"Freight Forwarding Services means services of any kind relating to the carriage, consolidation, storage, handling, packing or distribution of the Goods as well as ancillary and advisory services in connection therewith, including but 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"* (FIATA, 2007).

In addition, the freight forwarder is an intermediary and acts on behalf of importers, exporters or other companies who hire them to organize transport in safe, efficient and profitable conditions. Having said that, the very concept of freight forwarding is best expressed as a commissioned commercial activity carried out by a freight-forwarding company. This approach has its economic and legal justification, given that a service is by definition an activity performed on behalf of someone other than the product owner themselves (Wasilewska-Marszałkowska, 2014).

Figure 1. Evolution of the freight-forwarding industry



Source: *Freight Forwarding Industry - The Contemporary Role and Development Trends in Serbia* by Stojanović D. and Veličković M., 2019.

Figure 1 shows the changing role of the freight forwarder and the evolution of the forwarding industry, as well as the share of individual entities and the services they offer.

2. Place of the Sea Freight Forwarder in the Process of Providing Comprehensive Transport Services

Considered through the prism of integrated logistics chains, sea freight is one of the many praxeological technologies, that is, economic applications used in organizing the flow of material goods between the sender and the recipient, in this case in an international, and usually global, setting. Meanwhile, transport, in addition to storage, packaging, management and advanced ICT solutions, is the basic tool for ensuring efficient physical flows of goods movement along a specific route (Ficoń, 2010). A sea freight forwarder is an expert who is able to properly arrange transport services as well as solve problems that often appear early at the planning stage of the transport process (Skiba, 2020). Appropriate organization of transport consists in each of the participants performing their assigned activities in a specific sequence

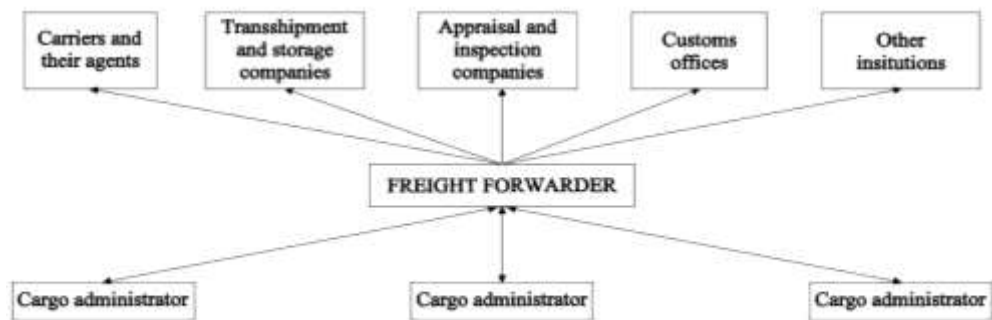
and in the right way. The freight forwarder also acts as an advisor in the implementation of the transport process, handling different modes of transport and striving to find the optimal solution for their client. Appropriate organization of the transport process occurs when performance of all forwarding activities by individual participants takes place in a fixed order, in a specific agreed way and in mutual symbiosis. The result should be a quality service offered at the lowest possible cost.

The transport process is essentially a sequence of components of the following nature, transport, administrative, legal, financial, organizational and economic (preparation of goods for transport, fulfillment, storage and others). The freight forwarder is therefore the "brain" of the transport process due to their knowledge of transport market dynamics, client requirements and needs associated with specific goods. What they essentially do is design a backbone in the form of an individual transport process and then overlook its implementation using to this end the pool of specialized entities, all while acting as a coordinator who manages and cooperates with companies involved in the transport of goods.

Owing to its specificity, the most complex and complicated transport process is carried out by sea, which usually supports multi-channel and multi-branch flows of goods on an international scale, mainly within traditional structures of foreign trade. The transport process in foreign trade is usually repetitive and in most cases follows a similar pattern, although *similar* never means *the same*. This should be reflected in the freight forwarder's decisions with regard to the implementation of individual transport orders in sea transport.

The freight forwarder is the coordinator and architect of the transport process, and as such, one of the challenges they face is proper cooperation with the participants of the supply chain. Figure 2 shows the place of an international freight forwarder in the organization of transport processes.

Figure 2. Place of an international freight forwarder in the organization of transport processes



Source: Podręcznik spedytora by Marciniak -Neider and Neider, 2014.

Given the above, the forwarder should be able to influence and negotiate with individual actors in the supply chain, with a view to working out potentially best benefits for the end client. When organizing transport, the freight forwarder outsources subsequent activities to their partners, subcontractors, or possibly other freight forwarders who play a complementary role in relation to the main forwarder.

3. Evolution of Sea Freight-Forwarding in Poland

Freight forwarding is a very fragmented market in Poland, with many small enterprises with a small base level of funding. Freight-forwarding companies in Poland are characterized by a low level of development and the lack of adequate know-how to implement innovations, further marked by a high price competition resulting from significant market saturation. In addition, many companies, for example travel agencies or commercial intermediaries, steadily expand their business model to include freight forwarding. The size of the forwarding market is difficult to estimate, precisely because such services are performed as an additional rather than main activity.

Some Polish enterprises only mention freight forwarding in their name and classification, but do not actually engage in such activities. Many freight-forwarding companies also operate in parallel, non-forwarding industries, of which some specialize in the transport of goods and use their fleet to fulfill transport orders. Overall in the Polish market, there is only a dozen or so logistics operators playing a significant role on a national and international scale, with additional several dozen being of a local outreach. The remaining entities are for the most part sole traders.

Currently, there are 169 enterprises associated under PISiL³. Most of them conduct freight-forwarding activities which are provided both as base and additional services, performed alongside transport services (Skiba, 2020). The upward trend observed in the sea freight-forwarding market in Poland is due to the rising revenues of companies operating in this industry (Table 1). Virtually all the largest sea freight forwarders in Poland reported an increase in revenues in 2020 compared to 2019.

Table 1. Sea/ocean/inland freight-forwarding companies in Poland, ranked by revenues reported in 2019-2020

| Rank (TFL revenues in 2020) | Company name | TFL revenues in PLN | | TFL revenues dynamics (2017= 100 %) |
|-----------------------------|--------------------------------|---------------------|-------------|-------------------------------------|
| | | 2019 | 2020 | |
| 1 | VGL Group Sp. z o.o. | 603 588 370 | 682 962 397 | 113% |
| 2 | Yusen Logistics (Polska) Sp. z | 385 921 087 | 472 629 236 | 122% |

³**PIFFA – Polish International Freight Forwarders Association** is a voluntary self governing organization associating the entrepreneurs who run economic activity in the scope of services in international and national freight forwarding, logistics, transport, customs agencies as well as other services related with the goods turnover. The Association acts within the territory of the Republic of Poland.

| | o.o. | | | |
|---|--|-------------|-------------|------|
| 3 | SOLID LOGISTICS Sp. z o.o | 268 721 423 | 243 591 778 | 91% |
| 4 | ATC CARGO S.A. | 230 938 580 | 243 089 889 | 105% |
| 5 | TIRSPED Sp. z o.o. | 118 678 484 | 119 113 806 | 100% |
| 6 | LANGOWSKI LOGISTICS Sp. z o.o. | 68 342 855 | 94 043 916 | 138% |
| 7 | Terramar Spedycja Międzynarodowa Sp. z o.o | 46 727 890 | 52 061 741 | 111% |
| 8 | EV Cargo Global Forwarding Sp. z o.o. | 48 698 812 | 50 419 380 | 104% |

Source: Dziennik Gazeta Prawna, 24.06.2021, nr 120 (5528).

In what concerns trends in the evolution of the freight-forwarding market in Poland, it is worth considering these in terms of prospects forecast for the industry. To this end, a SWOT analysis was performed (Table 2).

Table 2. SWOT analysis of the evolution of freight-forwarding market in Poland

| Strengths | Weaknesses |
|--|--|
| <ul style="list-style-type: none"> - favorable geographic location of Poland, - increasing infrastructure and suprastructure development in maritime transport, - systematic increase in the level of transshipments in sea ports, - increased efficiency in managing freight-forwarding companies | <ul style="list-style-type: none"> - high wear-and-tear of transport infrastructure, - high dependence on overall market situation, - employee flows between TFL entities, - rising inflation |
| Opportunities | Threats |
| <ul style="list-style-type: none"> - growing network of connections in international relations that boosts Poland's transport accessibility, - level of intermodal transport integration | <ul style="list-style-type: none"> - lack of qualified staff, - deepening difficulties in relations with the EU resulting in delayed EU funds for the modernization of transport systems - prospect of a potentially looming financial crisis |

Source: Own study.

Given the results of the SWOT analysis, the conclusion can be drawn that, in spite of a fair share of weaknesses (especially the transport infrastructure being outdated and the existing development threats, particularly in relations with the EU and staffing), the forwarding market in Poland shows overall good prospects for growth, a perspective further reinforced by the growing demand for transport services.

4. Lean and Agile Supply Chain

The TFL sector, including sea freight, is facing important challenges, especially staff shortage and the pressure to increase salaries and market regulation, to name a few. Additionally, there is an increasing number of market competitors, which leads to lower margins, and consequently, to more active efforts being taken to limit the role of intermediaries. As a result, ship owners are choosing to deal with clients directly, without cooperation with sea freight forwarders. Considering the better rates that this solution tends to offer, clients themselves are willing to embrace these changes, all while ignoring one very important aspect, namely that a sea freight forwarder cooperating with several carriers is better equipped to offer clients an optimal

solution, whereas ship owners act in their own interest and are purely profit-driven. Current innovations and universal access to digitization are pushing clients to use online platforms and therefore assume the role of a freight forwarder. However, this solution doesn't favor establishing long-term ties; instead, any relationships arising from that model resemble those observed in the sports market (Witkowski, 2003).

Nowadays, logistics should aim to reduce all wasteful operations and additional costs in everyday processes, including freight forwarding. On the other hand, the pressure becomes all the greater due to the growing role of maritime transport and the advancement of world economy and trade (Skiba, 2013). Progressive globalization, economic growth and the growing demand for sea freight are all having an impact on the changes currently taking place in the TFL market, which is entering a new era where lean and agile supply chain concepts are to become pivotal (Gilaninia *et al.*, 2011).

Lean supply chains tap into the continuous improvement of processes that seek to eliminate waste at an operational level and whose implementation requires a set of business models promoting multi-level collaboration rather than competition (Sony, 2019). Implementation of new technologies and IT systems for data exchange is one of the key drivers of reduced turnaround and number of redundant operations. Supply-chain participants, for their part, including shipping lines, are looking for new opportunities to reduce costs, shorten the transit time and improve the exchange of information as a way to ensure lean and agile supply chains of sea cargo.

Measures being taken to this end by shipping lines are aimed at transforming their role to become global providers of logistics services. In so doing, the shipping industry is forced to seek new opportunities and methods for managing time, space and information between global entities in agile supply chains from point of origin to point of consumption (Bešković and Twrdy, 2011). Unexpected recent events and process inconsistencies have highlighted the need for a change of perception and knowledge which may prompt a shakeup in modern supply chains (Navas and Cruz-Machado, 2013).

Global logistics must constantly evolve and strive to become more agile in order to be able to adapt more effectively. The events of last year and the Covid-19 pandemic have showed that only companies who managed to re-arrange their supply chains, by incorporating digital solutions among others, have been able to survive. Smart solutions help to boost service complexity and ultimately optimize global supply chains. When properly implemented, these solutions open up new doors and provide logistics with a competitive edge in a growing market. But good response to emerging market needs means more than just adopting new technologies or lean supply chains. The modern TFL market also requires a high level of flexibility, often referred to as agility these days, defined as the ability of a business to respond quickly to changes reported in demand, both in terms of their size and nature (Christopher, 2000).

5. Case Study – A.P. Møller-Mærsk

As reported by *The Loadstar* on their website, the Danish carrier and logistics operator AP Moller Maersk is looking to exclude freight forwards from the transport of goods in the near future (TheLoadstar, 2021). Reports show that Maersk wants to become a global 'integrator' by means of an online platform to enable door-to-door shipments and make the supply chain more agile. This approach is to facilitate transport but also gives cargo owners more options for tracking and monitoring processes across the supply chain.

According to the website, freight forwarders make big profits off of sea transport rates, with one example citing single-shipment margins as high as USD 16,000 that could otherwise be pocketed by sea carriers. Although Maersk, when asked by Lloyd's Loading List, refutes media reports on accepting cargo only from direct senders, bypassing freight forwarders, their actions are certainly pointing to such a trend. Meanwhile, the German *Deutsche Verkehrs Zeitung* (DVZ) reports that Maersk is currently holding talks to acquire Senator International, a Hamburg-based freight-forwarding company gathering small and medium-sized enterprises (Lloyd's Loading List, 2021).

When asked to clarify by Lloyd's Loading List, spokesman for AP Moller-Maersk replied that the company is on course to become an integrated container logistics and freight-forwarding company, which means they constantly seek ways to effectively link and simplify their clients' supply chains. Furthermore, in October 2021, Maersk announced that it had signed a global end-to-end logistics agreement with the Danish meat producer Danish Crown. Maersk will become their main logistics partner, providing it with sea and inland transport services as well as logistics for refrigerated transport (Maersk, 2021).

According to James Hookham, secretary general at Global Shippers Forum, Maersk may soon be launching a dedicated platform to enable the integration of their supply chains, which would in turn make their competitive advantage even more pronounced while the very initiative is viewed as something inevitable that has been on the table for some time already in the TFL sector. Large and dynamic companies such as Maersk would certainly benefit from adopting this new model while small enterprises are likely to still turn to freight forwarders for mediation (Trans Info, 2021). To quote Martin Holme, Global Head of Lead Logistics at Maersk, *"flexibility enables companies to deal with unexpected events by accelerating or slowing down supply chains, a trend triggered by Covid-19 that has caused disruptions in transport processes. Flexibility also means precise insight into stock levels and delivery schedules, which, coupled with real-time data, helps supply chain managers make faster and more effective decisions about securing multiple sources or prioritizing one shipment over another to meet changing market demands"* (Lin *et al.*, 2006).

The latest report, *Maritime Transport Review*, published by UNCTAD shows that the changes triggered by the Covid-19 pandemic have affected all economies, sectors and industries - and sea transport is no exception. It is the UNCTAD report that emphasizes the importance of ensuring smooth delivery and continuity of supply chains, as well as the growing role of digitization and information exchange as a key pivot for sea transport operations to remain unaffected.

Digitization and agile supply chains have been a trend in maritime innovation for several years now, but it was not until the Covid-19 pandemic that the need for flexibility and reliance of digital technologies, e.g. electronic platforms, became truly apparent (Karaś, 2021). The Covid-19 crisis showed that ports that adopted digital solutions and digitized business processes were less affected by the pandemic than those that still rely on person-to-person interaction and paper documents (UNCTAD, 2020). Undoubtedly, Covid-19 will have proved to be a huge factor behind the change in attitude towards digital solutions, as most of the world's 4,900 ports still do not use digital technologies for the majority of basic processes.

In fact, as many as 80% to this day rely on manual solutions such as spreadsheets (Chambers, 2021). Initiatives taken by TFL leaders such as Maersk are based on the concept of lean and agile supply chains, which are a strategy for building a competitive advantage using, among others, the potential of modern technologies. A company's competitive edge springs from a well-planned and implemented supply chain, but this is all the more important in today's unstable market marked by volatile demand (Sundararaj and Devadasan, 2009).

6. Conclusion

Freight-forwarding is becoming an area of increased interest to global supply chain operators. The increasing demand for transport services has pushed the forwarding sector to evolve and therefore face new challenges related to the implementation of transport and logistics services on a both domestic and international scale. Over the last decades, the scope of freight-forwarding activities has also changed, underscoring the important role freight forwarders play in the process of developing and implementing the logistics concepts of sea-transport supply chains.

The increased number of cargo transports means there are more shipments requiring handling, which is one of the reasons why freight forwarding can be considered a booming profession with a good outlook and a chance to grow into a world-class freight forwarding cluster. Due to the expanding scope of needs and technologies, innovative solutions are becoming increasingly prevalent in transport and sea freight.

Digitization and automation are an example of technologies that streamline the freight forwarder's work and the entire transport process. We are currently witnessing a transformation of the freight-forwarding industry, in which the freight

forwarder acts as a coordinator and architect of the transport process. Although this is not something that will happen overnight, digitization and adaptability of subsequent businesses are bound to drive this trend, which in turn will reflect on the entire supply chain. Currently, the freight forwarder is no longer a contractor of just one service, but is involved across a comprehensive supply chain, while the industry is already seeing dynamic changes in how it brings together clients and suppliers.

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