

The Future Of Freight Forwarding In A Post-Covid World Survey



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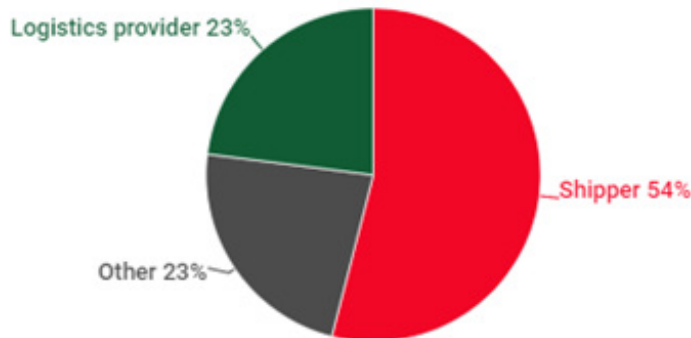
Introduction

The global freight forwarding market is at an unprecedented point of change. The Covid-19 pandemic has pushed shippers, forwarders and other logistics professional to reassess their supply chain operations and strategies at a time when change driven by technology, digitalization, trade wars and the need to develop sustainable supply chains was already accelerating.

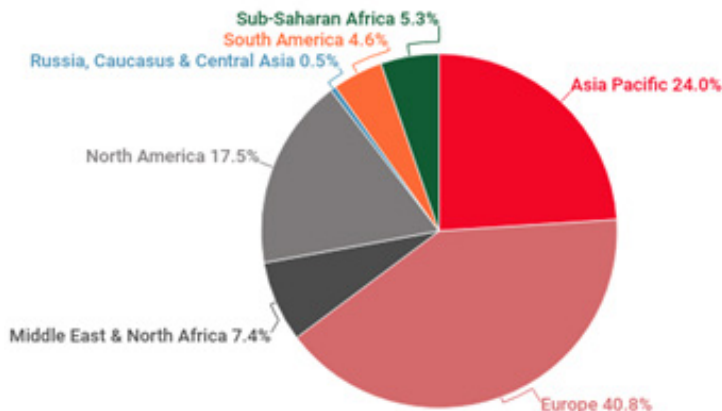
To understand the direction of change and map the future of the global freight forwarding market, Ti and Bolloré surveyed 422 logistics professionals throughout July and August 2020. More than half of the respondents to this survey represent retail and manufacturing shippers that use air and sea forwarding services, while a little less than one quarter are freight forwarders themselves. The remaining survey respondents are primarily from professional services sectors including consultancies and financial institutions. Respondents are globally based, with Europe making up the largest proportion and the Asia Pacific and North America regions also strongly represented.

Survey Demographics

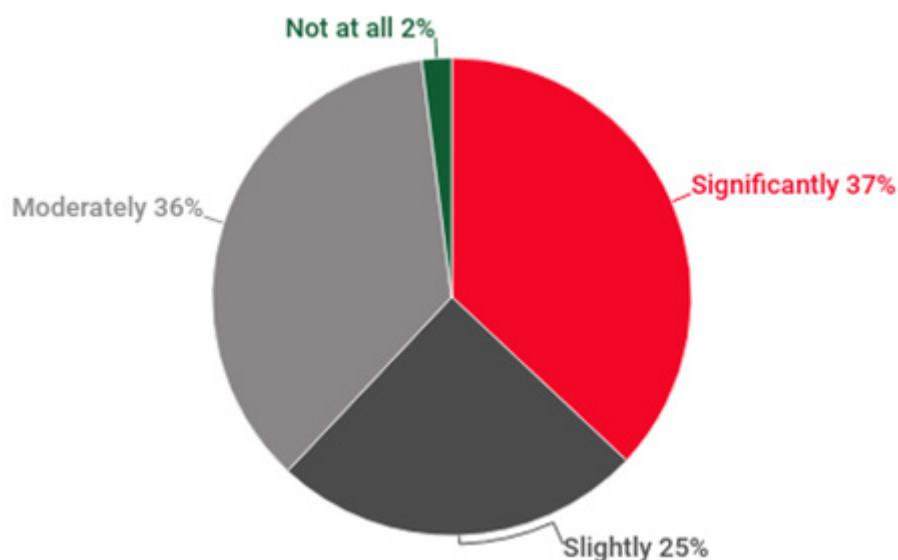
Which type of company do you represent?



In which region do you primarily operate?



How will the Covid-19 crisis impact your supply chain strategy over the medium term?



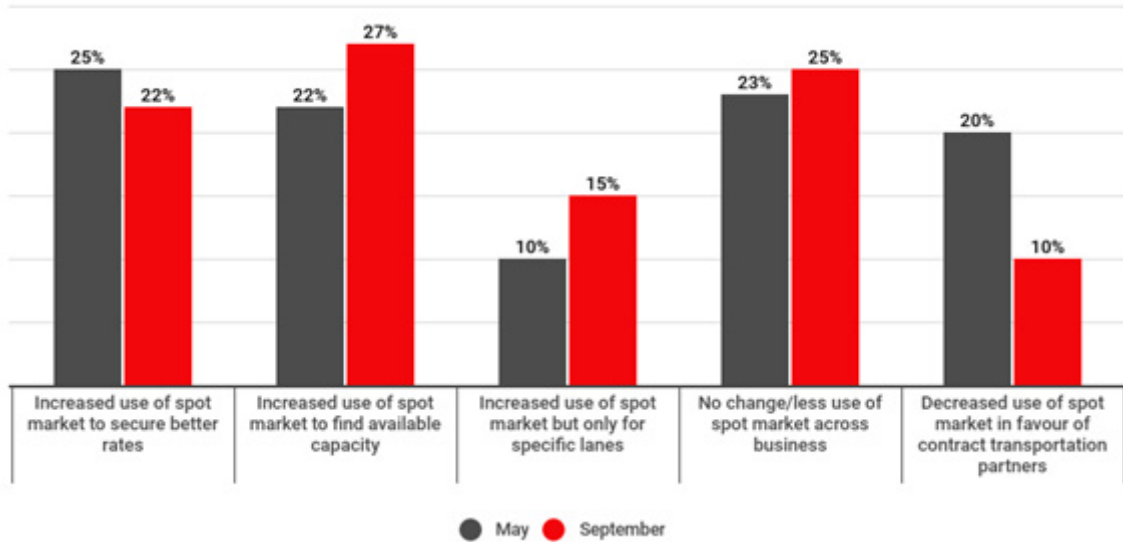
Covid-19 has been a once in a generation disruption that hit a global freight forwarding market wrestling with cyclical challenges and significant structural change.

In the months before the Covid-19 crisis took hold, the US-China trade war and a wider global move towards trade protectionism had weighed on growth, dragging the global freight forwarding market into contractionary territory. The market sizing shows the global air and sea forwarding market contracted 1.7% in 2019 as these weaker macroeconomic fundamentals saw a collapse in global trade. These external challenges have been matched by ongoing internal digital transformation projects at many forwarders in response to the threat posed by a new generation of technology-led start-ups disrupting the industry.

The global Covid-19 pandemic then arrives at a time when the global forwarding market is already undergoing profound change. That 98% of respondents expect an impact on their supply chain strategy from it is perhaps no surprise, but that does nothing to diminish the clear outcome of this question – the Covid-19 crisis, combined with ongoing change in the forwarding market, have ushered in a period of profound change over the next few years. Indeed, as has been seen in many logistics markets and industry sectors, Covid-19 looks set to accelerate a rate of change that had already been moving at a rapid pace.

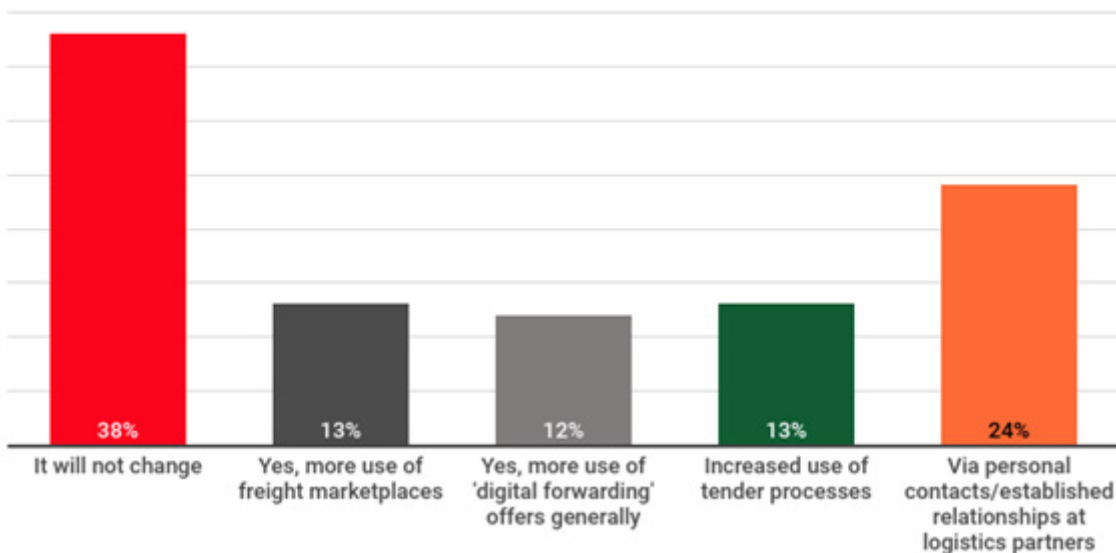
How has your Air/Sea Freight purchasing changed as a result of Covid-19 disruptions?

Comparison May vs. September 2020:



Will your freight procurement method change as a result of Covid-19?

(Note: respondents were asked to select all that apply)



The last five years have seen a rapid and sustained period of digitalisation in the global forwarding market. A generation of start-ups have entered the market to tackle inefficiencies in the forwarding process while large incumbent global forwarders have also rapidly embraced technology and revolutionised their business models in response. The moves by both start-ups and incumbents have automated many processes, improved customer experiences and crucially

made forwarding services more accessible. This is driving a change in the way forwarding services are purchased on the spot market, with many now able to receive instant quotes and online freight booking capabilities from dozens if not hundreds of forwarders globally.

Such capabilities appear to have underpinned a move by two thirds of survey participants who state they made more use of the spot market as a solution to keep volumes moving during the pandemic. One of the main drivers to switch for 27% of respondents was finding capacity, which reflects a global forwarding market with vastly reduced air capacity resulting from grounded flights and shipping reduced via blanked sailings. Another 22% stated that they made the switch to the spot market in order to secure better rates. Here again capacity issues were at play, lower capacity resulted in higher rates, even in the face of lower shipment volumes demand still outstripped the supply of capacity. Sea carriers managed available capacity by blanking sailings to maintain rates and their margins, air carriers with freighters were able to operate when belly hold cargo was almost entirely excluded from the market and were able to charge very high rates. These factors created a need for shippers and LSPs to seek new and cheaper capacity on the spot market.

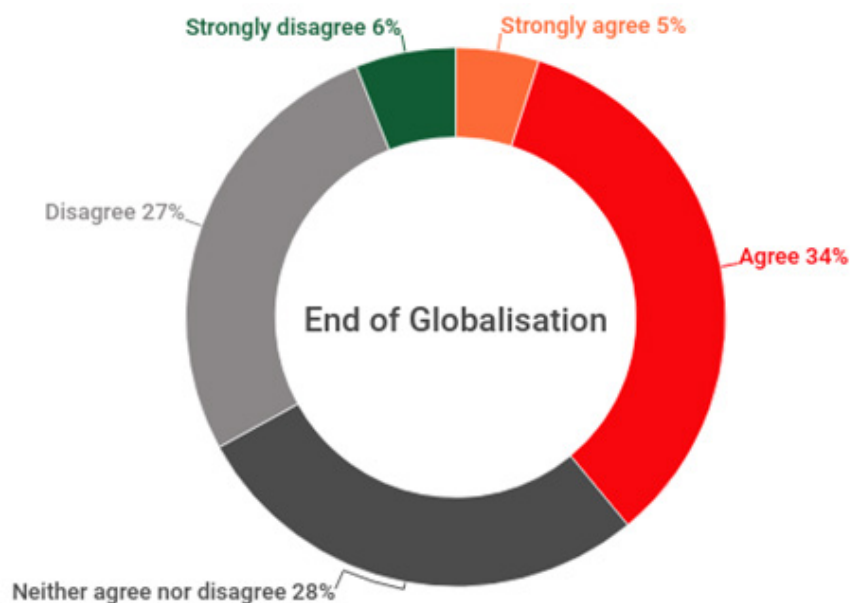
Around a quarter of respondents made no changes; while this suggests some volumes were supported by existing transportation plans, it is also possible that many in this segment already make use of the spot market and continued to do so during the crisis.

There was a significant change from May to September in the number of shippers either not using or reducing their use of the spot market, down from 43% in May to 35% in September. The shift has been the result of the ongoing capacity crunch, capacity has steadily returned to the market but manufacturing has come back online faster than expected and many western companies are working to restock their inventories ahead of future Covid disruption in the coming winter.

With so much movement towards the spot market there has also been significant change in how shippers purchase freight services, partly driven by the need to access more capacity when traditional approaches fail.

Here we see two differing approaches as 24% of respondents said that they plan to rely on trusted and established relations with LSPs when purchasing transportation services, while 25% said that they would buy more freight services through digital platforms and digital forwarders in the future. This suggests that the digitalization trend, which was already gathering pace before the pandemic has been accelerated further by the crisis. The key question is how long the requirement for extraordinary capacity will last, or, if we see a permanent shift, how substantial that will be. Many spot market platforms are working hard to try and capture as much volume as they can during this crisis and are building strategies to retain new clients, but we would expect a regression to the norm to some degree once the crisis passes.

The Covid-19 crisis will lead to the end of globalisation and the re-emergence of national/local supply chains. Do you:

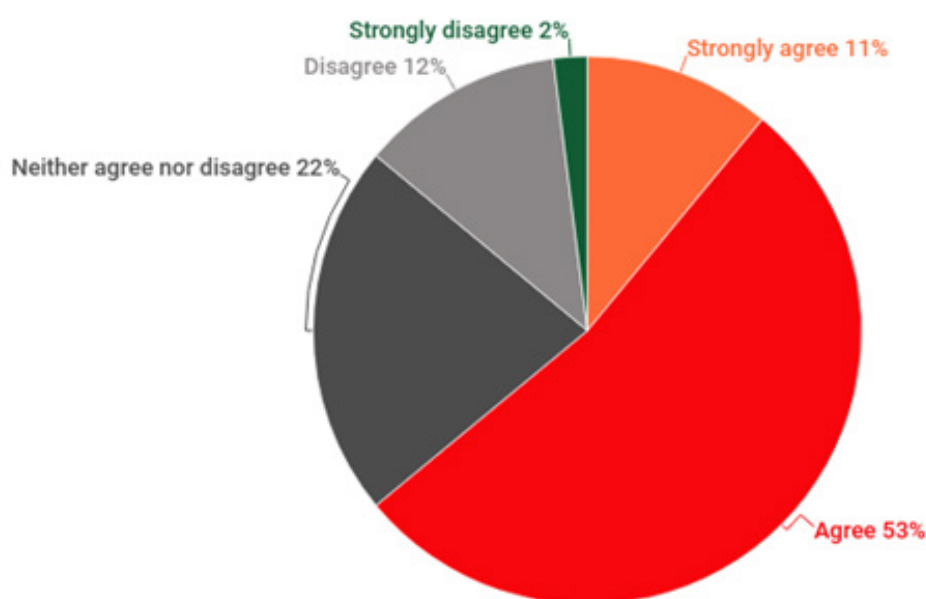


Despite the relatively even spread of results it is remarkable that as many as 34% of respondents agree that the Covid-19 crisis will lead to the end of globalisation. Although over the last few years of rising protectionism and trade wars this view has become more prevalent, this represents a significant change from the previous consensus. What is particularly noteworthy is that this view is evident from a sample of logistics professionals, who have witnessed the benefits of globalisation first hand. The loss of confidence could of course be put down to the strain of the times, indeed a Ti poll asking the same question in May 2020 at the peak of the crisis showed that 45% agreed with the statement. The fact that the proportion has come down by 6 percentage points since the May poll suggests that it is likely to fall further as the pandemic runs its course. Nevertheless, it is quite incredible that such a large minority are contemplating the end of globalization, given how little support a statement like this would have received just a few years ago when globalization, as measured by DHL's Global Connectedness Index, peaked in 2017.

It is true that proponents of globalization have been on the retreat since 2017, with rising political unease around the effects of globalization growing in to the trade wars we see unfolding today. Since the crisis began we have also seen many major Western governments endorse more national supply chains to reduce their exposure to global crises. In business we have seen a number of manufacturers and retailers express a desire to diversify their sourcing strategies. With sentiment in government and the private sector moving towards more localised supply chains it does seem likely that this will

occur to some extent, particularly in critical sectors like healthcare and the food supply. However, the advantages of globalised supply chains for the wider manufacturing and retail sectors, and the sentiment of the majority surveyed, suggests that supply chains will retain their global character for the foreseeable future.

Will your supply and flow-planning model become more flexible?



In supply chains, flexibility is the capacity to respond to changing events or circumstances as, or ideally before, they occur. Over the last decade and more, supply chains have really come to resemble 'networks' and the notion of a linear 'chain' is no longer descriptive of how many operate. Flexibility is seen by a majority (64%) of respondents as a key risk mitigation strategy as it will allow shippers and their logistics partners to exploit the networked nature of the supply chains to keep goods moving despite potential disruptions.

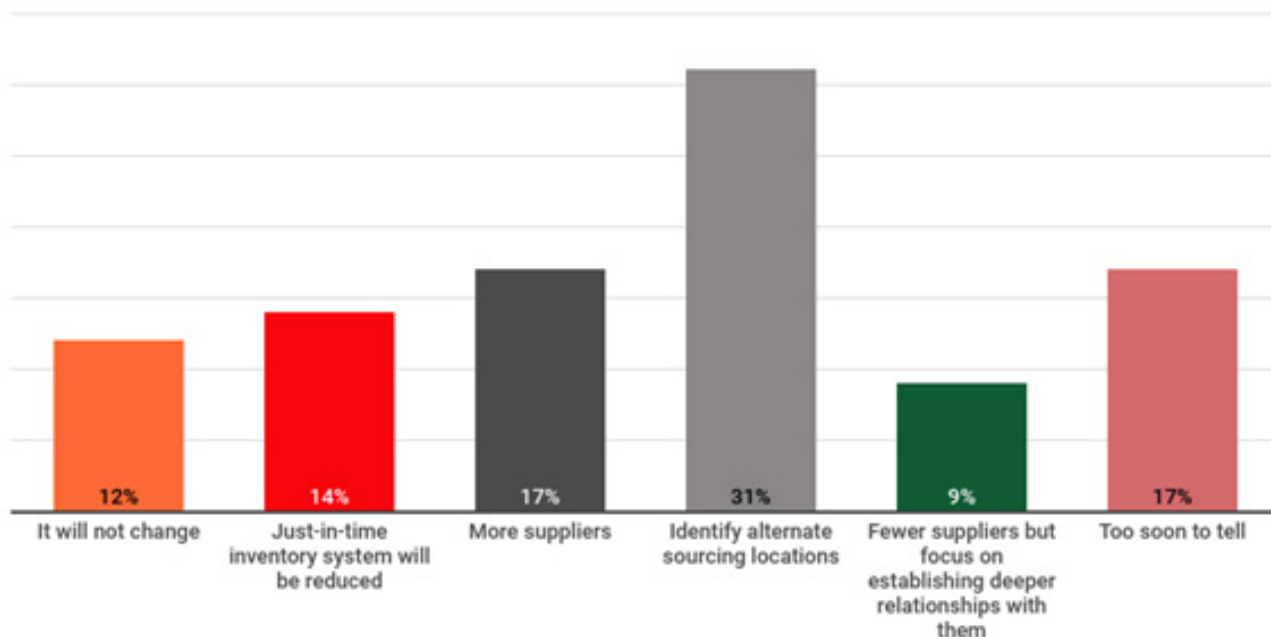
During the Covid-19 crisis, many sectors of the global economy, if not completely shut-down, were subject to vast restrictions on operations. This exposed a lack of flexibility as a key weakness in certain supply chains – namely a lack of key materials, components, products or services meant the entire supply chain ceasing to work. The results here suggest that, over the medium-term, the most successful supply chains will be those that can most effectively respond to and mitigate potential disruptions, whether on the scale seen during the pandemic or those of a more day-to-day nature. Increased flexibility of supply – whether via an increase in the number of suppliers of duplicate parts or of

logistics partners with specialized capabilities or geographic expertise, for example – and in flow planning – to ensure inventory moves according to schedule – will factor heavily in success.

Achieving such flexibility will be challenging and require potentially significant investment as well as time. Real-time visibility of the location and status of good in shipment is crucial, and not a challenge the logistics sector has yet solved. So too is the ability to not only monitor external events but to sense upcoming disruptions, such as port congestion or adverse weather conditions, before they occur and respond to mitigate their effects. This requires sophisticated IT and operational expertise but will be a significant competitive advantage to those who can most effectively implement such flexibility.

How will your inventory procurement strategy change?

(Note: respondents were asked to select all that apply)



Another indicator of the immense impact the pandemic has had across supply chains is the fact that 88% plan on changing their inventory procurement strategy, suggesting the majority have struggled to ensure supply. The surveys shows that 31% plan on identifying alternate sourcing locations, suggesting that the experience of the pandemic has taught many participants that an over-reliance on certain geographic locations is a weakness that needs addressing. However, as previously stated, an increase in optionality will increase risks stemming from complexities interwoven in to supply chains. Equally, ensuring product quality and finding a reliable market swiftly will be challenging factors in

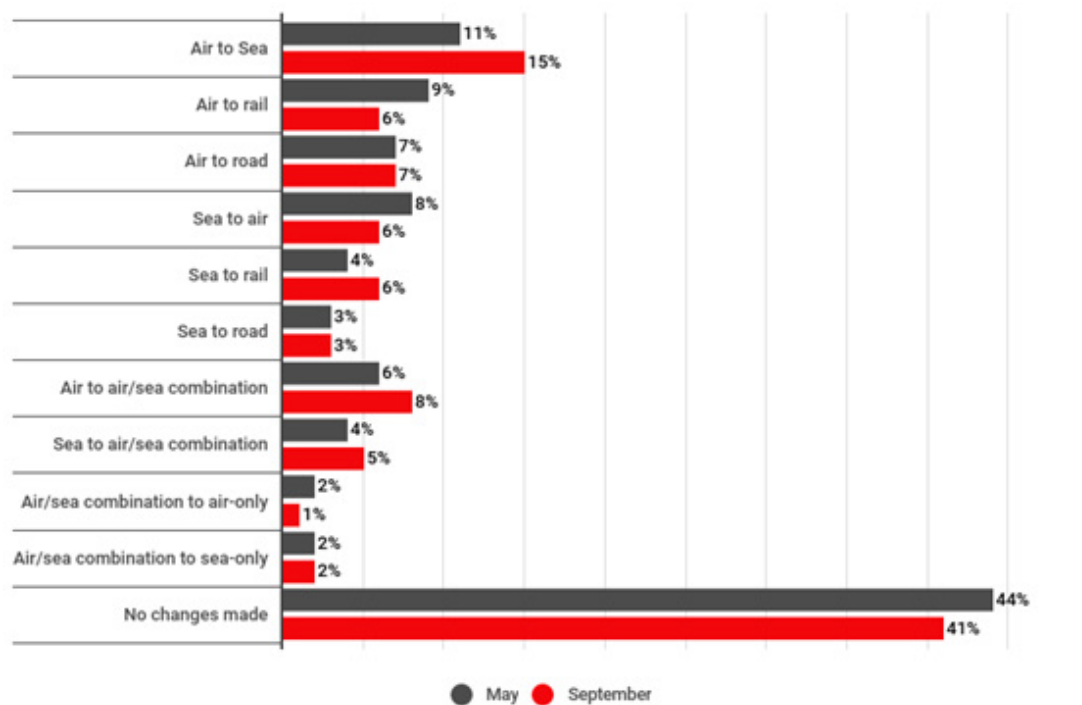
the process of identifying alternate locations, meeting these challenges will of course take time and capital investment.

The process of identifying viable alternate locations has gained significant traction in light of the on-going trade wars over the last few years. Already, the fallout from the US-China trade dispute has led to shifts in the sourcing of clothing to countries like India, which has seen strong gains in airfreight to the US due to clothing exports, as well as South Korea, Thailand, and Vietnam, which have seen considerably more iron/steel imports to the US by sea. However, China will remain an extremely attractive sourcing location, with huge manufacturing capacity and great export infrastructure supported by an enormous and highly experienced labour force which is still relatively cheap. It is therefore likely, that even as China's role in the world changes, and it's economy becomes increasingly competitive in more advanced manufacturing, it will continue as a core offshoring market for many years to come.

Will you make any of the following modal switches as a result of Covid-19's disruption in the market?

(Note: respondents were asked to select all that apply)

Comparison May vs. September 2020:



While a solid 41% of respondents expressed that they will not be undertaking any modal switches as a result of Covid-19, the key finding is that the general sentiment is leaning towards less reliance on airfreight, with a total figure of 28% (even 36%, if Air to air/sea

combination is included) expecting to move away from this mode of transport.

At the start of the pandemic the cancellation of almost all air travel wiped out around half of airfreight capacity and there is still great uncertainty about when and how it will return to normal levels of operation. These factors mean that airfreight rates are likely to remain volatile within the higher end of their range for the foreseeable future. A comparison between responses to this question and a poll in May and this survey in September shows there has been a 4 percentage point increase of respondents switching from air to sea, indicative of a growing trend that might integrate itself as a permanent change. Even before the pandemic there was an on-going trend away from airfreight in favour of other transport modes, but the survey suggests that Covid-19 has accelerated that trend further.

On the other hand, sea freight appears much more predictable with the shipping lines having managed capacity very carefully through the crisis. As carriers have the ability to reintroduce capacity when and where it is required, we expect a much easier and smoother recovery of the market when compared to airfreight. Sea freight was gaining some volumes in from airfreight even before the crisis, but with volatile air freight and increasing options to ship pharmaceuticals and certain perishables in refrigerated packaging by sea, it seems likely that sea freight will be an increasingly attractive option for many shippers in the future.

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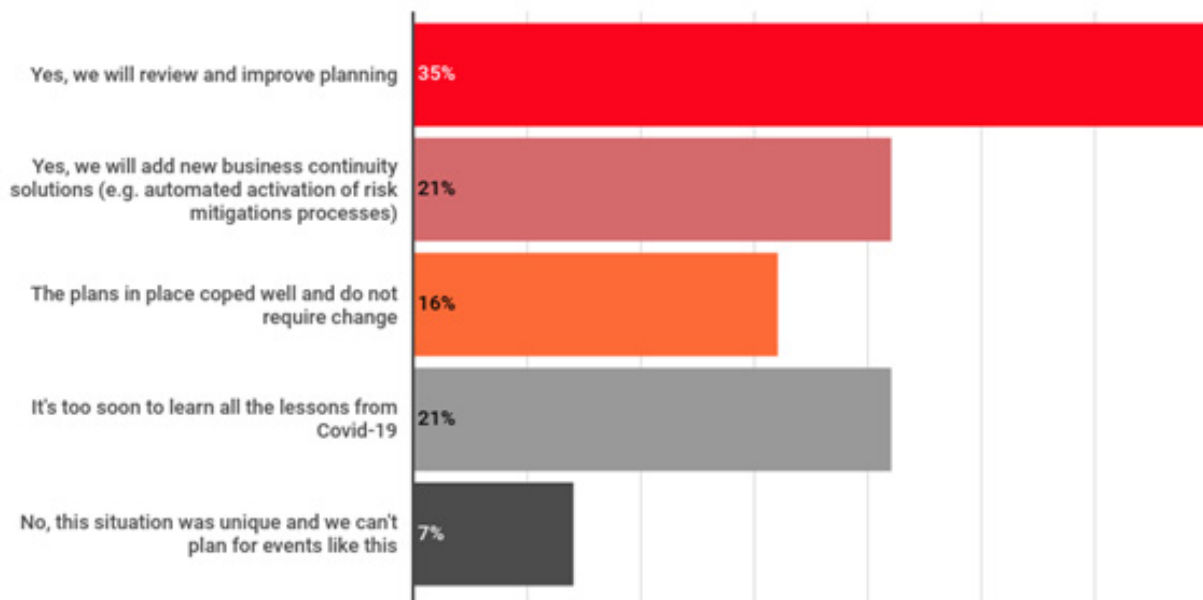
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Will your business continuity planning change as a result of Covid-19 disruption?

(Note: respondents were asked to select all that apply)

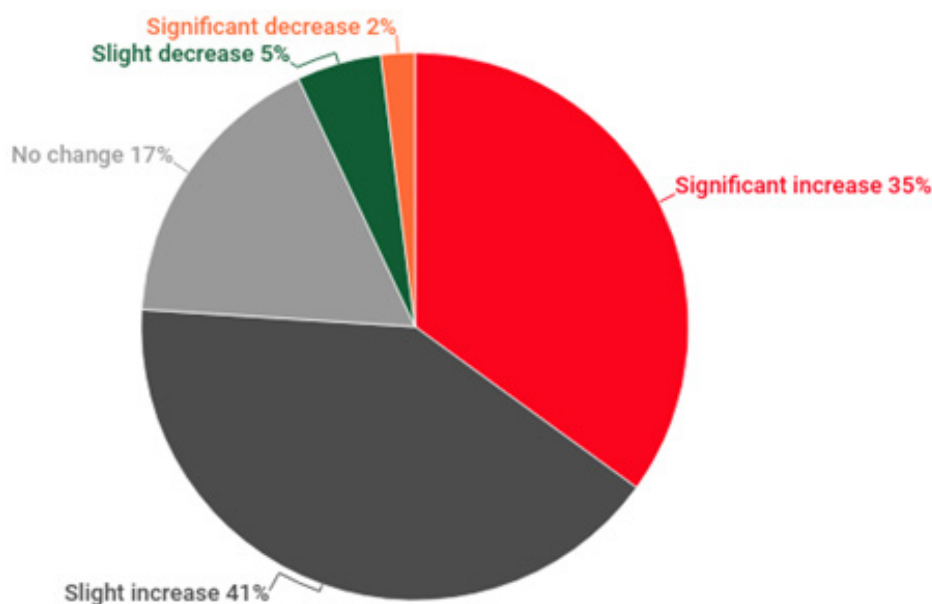


For many, the Covid-19 pandemic and its disruptions will have pushed business continuity planning to its extremes. The survey suggests that experience has been chastening for most, with only 23% not planning to make any changes, while 56% see the need for changes to a more robust supply chain in the future.

The pandemic is arguably the most significant public health disruption in a generation and responses to it tested continuity plans in many areas from operations to employee welfare, to ensuring financial survival across a great majority of sectors and geographies. Such is the significance of the crisis, it is therefore to be expected that a majority of respondents plan to review, improve and adapt continuity plans to apply the lessons learned during the pandemic.

Across the survey, however, a set of respondents appear to display an underlying resilience. At 16%, a not insignificant minority assert the success of their business continuity planning in the face of the crisis. This is allied to findings amongst a similar sample size elsewhere in the survey. When asked if inventory procurement strategies would change, 12% of those surveyed saw no need to alter their approach, while 14% do not see the need to increase supply and flow-planning flexibility. There are of course many qualifiers to the specifics of this, but it serves as a reminder that although the Covid-19 crisis has been a massive and disruptive force across the global economy, its impacts have been uneven and not always detrimental.

To what extent has Covid-19 disruption increased your demand for real-time visibility?



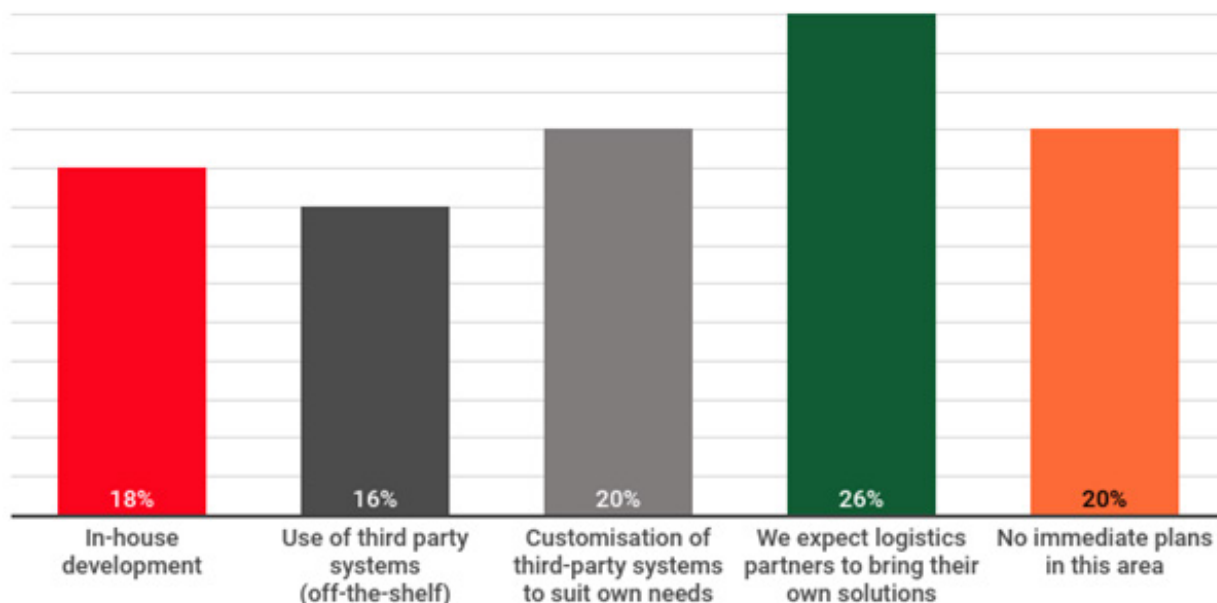
Real-time visibility has become an increasingly common goal and valued capability over the past few years, though it probably had rarely been such a crucial tool as it was during the pandemic. A remarkable 76% of respondents expressed that the crisis has increased their demand for real-time visibility. A figure that cannot be overlooked, it suggests that visibility is on track to become a hygiene factor in the industry over the short-term.

Results elsewhere in the survey reinforce this message. Around two thirds (64%) of survey participants plan to introduce more supply and flow-planning flexibility as a result of the Covid-19 pandemic. Visibility is key in implementing flexible solutions, particularly when changes need to be made in response to unforeseen events in transit. There is a similar dynamic at play for those that plan to enhance business continuity plans as a result of lessons learned during the crisis. Visibility over supply chain operations is fundamental in enacting business continuity plans, and all the more so for the 21% that plan to introduce automated triggering of plans.

However, the challenge of developing supply chain visibility should not be underestimated and many LSPs will not be in a position to make the investment required to deliver visibility for their clients in the near future. Those LSPs that are able to provide some visibility to their clients will have an advantage in the future, but realistically, they are likely to be differentiating themselves from one another based on how much visibility they can offer.

How do you plan to integrate further technology solutions into your supply chain?

(Note: respondents were asked to select all that apply)



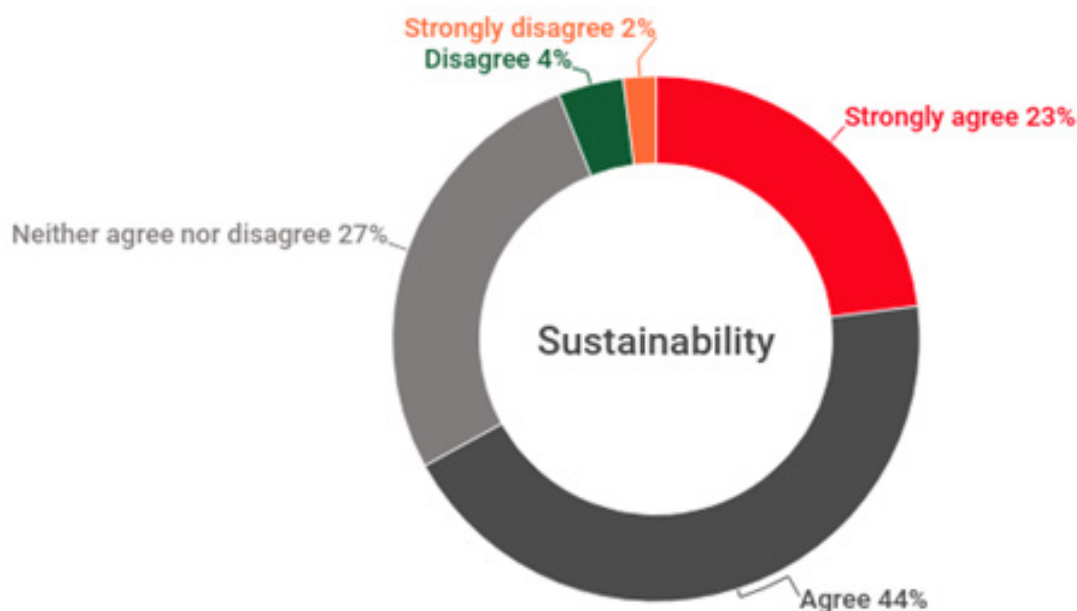
The implementation of technology-based solutions to improve supply chain performance and monitoring has been amongst the most significant trends in the logistics industry over the last decade. The dual processes of digitisation and digitalisation have transformed business models across the industry and the suggestion here is that respondents view the integration of technology as one path forwards after the Covid-19 crisis.

The responses, though, also offer a reality check many will be familiar with. One fifth of respondents have 'no immediate plans' to integrate further technology-based solutions. While this figure may well include those that are satisfied with the performance of their current IT set-up, there will undoubtedly be a significant number that are unable to invest, or prioritise investment, in new IT solutions. The global pandemic has ushered in a global recession – the EIU forecast a 2020 global GDP contraction of 4.4% in September this year – which will affect virtually all regions and many economic sectors. IT investment simply won't be a luxury all can afford in the short-term.

Still, 80% of respondents do plan to continue the integration of technology into their supply chain operations. At 26%, a significant proportion of respondents are placing an expectation on LSPs to offer technology solutions. This presents an opportunity for LSPs to capture more of the value chain through their software offering in the future, exploiting their key position as one of the few players that cover supply chains end-to-end.

The relatively even balance amongst integration options reflects two key technology trends. Firstly, as SaaS and cloud based off-the-shelf deployments become the norm, many smaller enterprises are increasingly able to implement technology in a cost effective manner. Secondly, the use of such a wide mix of solutions vastly increases the need and expectation for interoperability between proprietary, off-the-shelf and customised systems to ensure smooth operation and that maximum value is gained.

Will sustainable development be one of the major criteria for the selection of transport & logistics solutions?



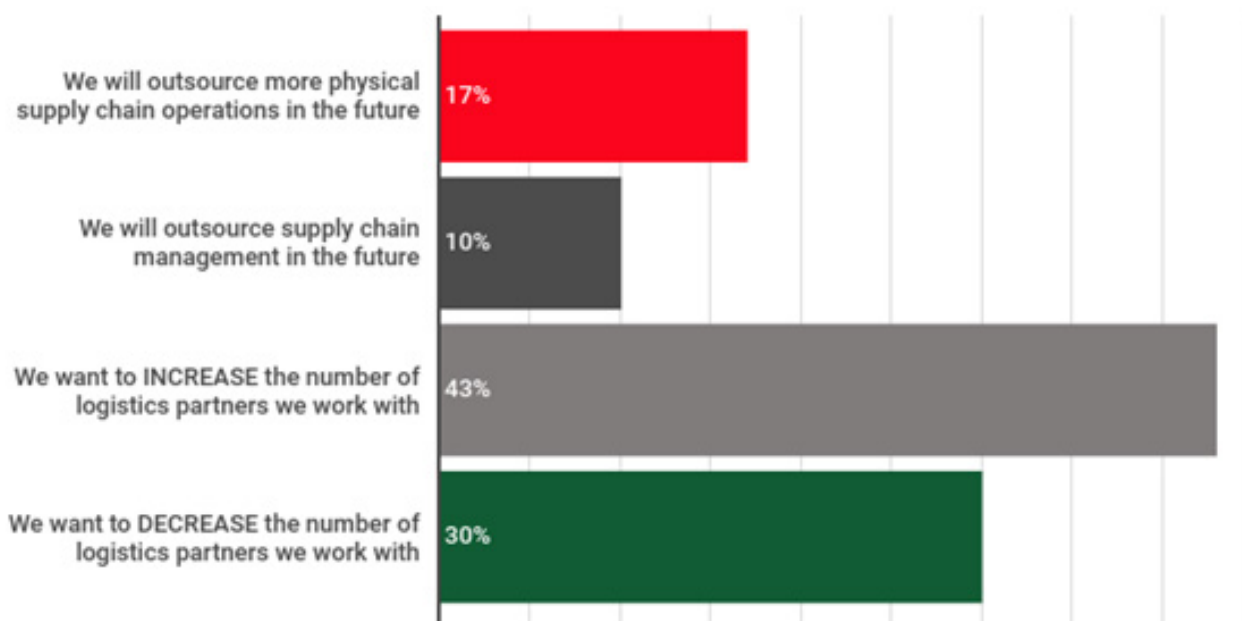
To add to many of the changes resulting from Covid-19, a total of 67% of respondents agree or strongly agree that sustainability will be a priority for them in future logistics tenders. With so many disruptions in supply chains, there is a rare window of opportunity in terms of restructuring and flexibility in their options. As sustainable practices and solutions have been gaining more and more traction and support, a majority of respondents seem to be eager to plan for their implementation now amid the other changes that are coming.

However it is not entirely clear that Covid-19 has provided the impetus for this response. The move towards sustainability has been driven by shifting societal values which are being reflected in consumer preferences and fed through to LSPs by shippers who need to match the values of their customers. Given that Covid-19 itself has not provided the push towards sustainability, but has brought other more traditional supply chain

challenges to the fore, it is possible that many LSPs will find it hard to invest in the longer term benefits of sustainability instead of more short-term demands on their cashflow.

Which of the following describe your logistics outsourcing strategy?

(Note: respondents were asked to select all that apply)



When considering outsourcing it is quite clear that the vast majority of shippers plan to retain control of their own supply chain management, with only 10% looking to outsource this function. Covid-19 has certainly raised the profile of logistics with the wider public and it seems that most organisations currently see logistics as a critical competence and wish to retain overall control. However, there does appear to be a higher propensity towards outsourcing physical operations more in the future, which may help to boost the growth of the 3PL market.

In terms how respondents manage their pool of logistics partners two broadly supported strategies for supply chain management appear to have emerged, with 43% planning to increase the number of partners they work with and 30% planning to decrease their pool of partners. Both strategies have their merits and can help to diversify risk, more suppliers may grant shippers access to more available capacity in times of crisis, whilst fewer stronger relationships with larger providers can grant access to capacity via those companies' own networks and their own large supplier pools. As we move through the later stages of the pandemic it will be interesting to see if either of these strategies becomes dominant.

Conclusion

Even before the Covid-19 pandemic had taken a hold of the global economy, the signs that 2020 would represent an inflexion point in the development of the global freight forwarding market were gathering. Across the market, growth was hard to come by as trade protectionism and de-globalization headwinds dragged on prospects. The US-China trade war weighed down the global forwarding market in 2019 and global trade volumes expanded by just 1%. It was against this backdrop that the Covid-19 crisis emerged, first shutting down much of China's manufacturing capacity before its spread saw consumer markets across Europe and North America grind to a halt. Over the course of 2020, as the global pandemic has run its course, its effects are becoming more visible and the implications are starting to work their way into the strategy and operations of supply chains the world over.

The results of this survey focus attention on one key, overarching impact of the crisis – it is a catalyst that has accelerated trends already underway across the global freight forwarding market. From digital transformation, through supply chain risk, to procurement strategy; nascent and ongoing trends have been sharply focused as weakness, vulnerability – and opportunity – have been revealed by the pressure of the pandemic. No region, economy or business is unaffected, neither will any fully return to standard practice.

The survey shows many will look to technology and digital services in the future. Much has been made of the digitization and digitalization of supply chains in recent years, but the Covid-19 pandemic has shown both the vulnerability of supply chains that cannot react and the utility of digital services that make forwarding services open and accessible at the point of need. Start-ups and established, incumbent forwards have been driving this change for a number of years, and the use case has only been reinforced by the pandemic.

Respondents also show a clear preference towards enhanced risk management and more effective value-added services providing visibility. This is a natural reaction to the events of 2020 which saw sea and air capacity fluctuate, inventory stuck in transit and in port congestion, while demand spiked in certain sectors and collapsed in others.

The Pandemic has also provided another force pushing at wider change in global trade and value chains. The questioning of the virtues of a globalized world has become louder over the last four years as trade protectionism has grown and the US-China trade war escalated. The Covid-19 pandemic highlighted how directly and indirectly exposed to Chinese manufacturing capacity many supply chains remain. Survey evidence suggests an accelerated integration of technology-based solutions in the short-term, as well as a preference to exploit the 'networked' nature of supply chains to mitigate the risks of over dependence on too few sourcing locations or trade lanes.



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About Bolloré Logistics

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