Freight forward, look backward

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In light of the many stresses experienced by the supply chain and logistics planners in 2020, no freight forwarders managed to distinguish or significantly differentiate themselves from their competitors in the eyes of their customers. For all the freight forwarders' talk of agility, flexibility and differentiated customer care, in 2020, no shippers adjusted their view of the value created by freight forwarders to their supply chain operations.

In 2020, freight forwarders got lost among capacity limitations brought in by the carriers, skyrocketing sea freight rates, port congestion flare-ups, and repositioned manufacturing from China looking for new and efficient routes to market. Even on the most rudimentary freight forwarder's job, that is finding the lowest price possible from A to B, freight forwarders could only talk of those bad carriers rising rates, ports reporting longer wait times for berths, and drivers unwilling to work long hours for a pittance. While the finger-pointing was going on, not one of them offered any significant discounts on their services to retain their bewildered customers.

Retreat to legacy

Speaking of that rudimentary job of finding the cheapest and most efficient routing synchronized with their customers' supply chains' needs, in 2020, the freight forwarders lost more ground to the less competent but cashed-up providers of freight technology. For the clues on freight forwarders' future as finders of the cheapest rates, the forwarders should only look to the disappearing act performed by the travel agencies. Conveniently, the pandemic provided proof of the superiority of digital marketplaces over physical presence in the game of finding the lowest price of anything related to travel. Just walk through your neighbourhood and look at the abandoned offices of Thomas Cook or Flight Centre, while investors in Airbnb, Trip, Booking.com or Trivago enjoyed their sweet returns on human operator-free platforms.

While the incumbent freight forwarders attempted to replicate the low cost, low overhead simplicity of the digital marketplaces, they also hung on to their legacy business model and all its limitations preventing significant cuts to unit costs. How difficult that is, just look up to the value of Amazon and Walmart over the period of the pandemic. Both have attempted to provide commerce at the lowest cost (not without stellar success as the fortunes of Jeff Bezos and Greg Penner can attest), but the digital-platform-play, with a tiny attachment of hard assets, proved itself clearly much more valuable than the brick-and-mortar-play with its small digital commerce attachment.

Not discouraged

It is also the reason why venture investors keep piling into logistics digital marketplaces, where demand and supply are easily aggregated, transaction costs are low, and revenues per employee are far in excess of what even the best traditional freight forwarder can ever generate. The freight forwarders' argument for survival is, of course, that the B2B business is too complicated for digital platform players, but the message, if any, has not discouraged the disruptors from chipping more customers off the incumbents' old block. Countermeasures in the form of updated digital portals are too simple 'me too' tools to build significant moats against the digital invaders. Ossified internal processes, requiring awkward and expensive retrofitting of digital solutions, are also proving a major challenge, as demonstrated by widely publicized write-offs of IT investments by major logistics companies.

As a venture capitalist, I would worry about one thing while throwing fresh $50m-100m at another digital freight marketplace in 2021 – what is my exit



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strategy? Alone, they will not survive. Theoretically, a marketplace could be sold off to one of the big enterprise software providers as an add-on to their TMS. Alternatively, it could be pitched to an existing freight forwarder as a substitute for a piece of their in-house system. The former solution seems to be more probable, but opportunities are running out. There may be too many FourKites, Project44, Forto (ex. FreightHub), Newtrul, or Vizion plays searching for that E2Open/INTTRA moment in 2021.

The latter is even less likely, as freight forwarders are terrified of becoming owners of technology choices and software development overheads decided by others, all too often undertaking their own in-house development. If you don't believe me, just check the announcement from J.B. Hunt that they will team up with… Google to build AI-whatever… freight matching platform.

Last but not least, 2020 was a quiet year for that hybrid freight forwarder experiment everybody loved talking about. In crisis times, that operations model combining traditional freight forwarder operations on top of a better digital platform has not demonstrated a clear advantage or ability to change either the analogue or the digital realm of the business.

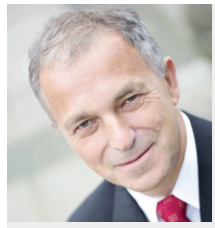
The most important asset

If the digital plays are not enough to ruffle freight forwarders' feathers, even more pressure will continue coming from the sea freight carriers building up freight forwarding capabilities through the acquisition of both digital and hard assets. They will keep cutting into freight forwarders' space because they were much faster appropriating the most important asset in the service game: the data.

While the freight forwarders are still debating the value of a common, shared data store, their data is already being leveraged against them on the two platforms owned by the sea freight carriers: Datalens and GSBN. Just wait until those platforms tackle air freight for integrated supply chain logistics orchestrations and incorporate trade financing for good measure. As if the threat from the carriers was not enough, I will be watching DP World spreading from their traditional port business into hinterland logistics and sea freight lines. DP World is slightly behind in the digital race as compared to PSA or the carriers' platforms. However, there seems to be more money and aggressiveness in the DP World build-out, so maybe it is just a matter of finding the right acquisition target in possession of integrated digital platform and consolidation of gains from their hard and soft asset acquisitions.

New battles but same ol' jagged blades

As the pressure builds and digitalization investments remain uncertain, expect freight forwarders to apply the old weapon to the new 2021 battles – consolidation. As the less agile operators with interesting customer bases falter, the ones with money will keep swooping in. Inevitably, those acquisitions will be paid with job losses as the acquirers remove duplication of positions and headcounts. That will be the inevitable price to pay in 2021 for hanging back and hoping for the best. ■



Kris Kosmala is a globally renowned strategy specialist in the fields of business and IT, technology and innovation, and digital business transformation, including Artificial Intelligence and optimisation. His works, alongside articles, posts, and comments, influence how transport & logistics is transitioning towards a more digital industry. Having worked for almost three decades for such heavyweights like Oracle, Flexera Software, NBN, Quintiq, and Royal HaskoningDSV, Kris is currently Partner at Click & Connect, a consultancy that helps uncover, evaluate, design, and implement innovative thinking in goods movement, supply chain organization, and transportation; acts as Connected-Ports' Ambassador, building universal, open-source API allowing port managers and port authorities to collaborate for greater efficiency; and has recently joined BunkerMetric, a Scandinavian software company bringing the power of advanced digital technologies to the marine bunkering segment, as Strategic Advisor.