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Professor Yossi Sheffi, director of MIT's Center for Transportation and Logistics, has a message for forwarders: "Knuckling under to a shipper and living in fear of losing an account is an epidemic today."

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Take a Page from Trucking: Squeezed by Shippers and Airlines, Forwarders Must Deliver (and Charge) for Better Intelligence and Service, Says MIT Transportation, Logistics Center Director

By Chris Barnett

Air shippers today are in the cockpit piloting their own flight plan. With airlines awash in capacity, corporate logistics chiefs are demanding Ritz-Carlton service at Motel 6 rates and midsized to smaller forwarders are caving in for chump change.

"Global manufacturers try to get the absolutely highest level of premium service for general cargo rates and the forwarding business is so cutthroat competitive, shippers get what they want and forwarders aren't getting compensated," says Professor Yossi Sheffi, director of the MIT Center for Transportation and Logistics.

Knuckling under and always living in fear of losing an account is an epidemic today fueled by fire sale air cargo rates on almost all routes except on inbound flights from Asia to the U.S., contends Prof. Sheffi. "Shippers are very good at blaming forwarders for any problem. That's what transportation guys are paid to do."

Forwarders Must Differentiate Themselves

Author of "The Resilient Enterprise: Overcoming Vulnerability for Competitive Advantage" released this month by MIT Press, he argues that forwarders aren't differentiating between "clients who are fanatic about deliveries on a 'just-this-minute' basis and clients who say 'just try to get it there on time if you don't mind' and don't want for time definite service."

If both shipments are riding on the same plane, forwarders need to be compensated for the TD service just like airlines do, asserts Prof. Sheffi, an engineering systems professor and expert in managing corporate disaster and disruption.

He cites the trucking industry's two-year turnaround as proof that transportation providers do not have to be at the mercy of their customers. "When demand started going up two years ago, truckers did not add capacity so the market stayed relatively tight. You're not going to get rich running a trucking company but their balance sheets

are generally shored up and their income statements are healthier."

Using 'Little Guys' to Beat Up on 'Big Guys'

One big problem, says Prof. Sheffi, is that forwarding is a "fragmented industry and shippers use the little guys to beat up on the big guys." Translated: if a big network forwarder balks on an issue, the shipper threatens or gives business to a smaller forwarder that does not have the technology, infrastructure, service and reach of the big forwarder but will charge less for its services. But the small forwarder is only a stopgap provider until the shipper gets what he wants again from the network forwarder.

One solution: Forwarders without the heft of The Big 10 should work on building relations with major international cargo carriers such as British Air, Air France, Lufthansa, Korean Air among others so they can have fall-back positions if their primary carrier drops the ball, he says. Just as important, "deepen your relationship with your primary carrier. Know their financial condition, know when it looks like trouble is up ahead."

"In this business, forwarders are judged on their response when things go wrong," notes Prof. Sheffi. "Keep on top of primary supplier because your best value is to give the shipper a heads up on a problem before the carrier does."

It's not that hard. "Carriers are very reluctant to let a shipper know when there's a problem," says the MIT Transportation and Logistics Center director. "But a good forwarder can sense a strike or a slowdown coming and giving the shipper that 'heads up' intelligence is an invaluable service. It separates the forwarder from every Dick, Tom and Harry."

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