

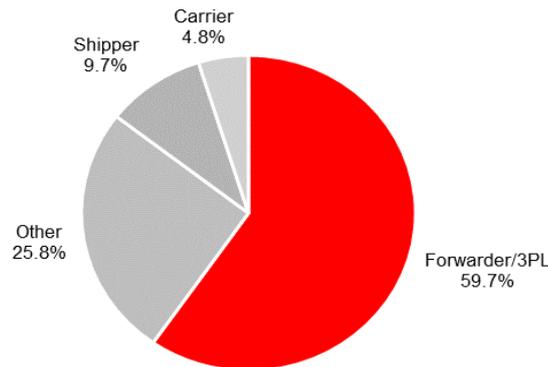


THE GLOBAL FREIGHT FORWARDING SURVEY 2017



In the months of May and June 2017 Ti undertook an online survey to measure the sentiment in the global freight forwarding market and understand the key trends impacting the industry in the next five years. Freight forwarders and 3PLs represented the largest participant group, with 60% of participants. Shippers and ocean carriers represented 10% and 5% of the total, respectively. The remaining quarter of survey participants came from other industry sectors, including consultancies, software providers and port terminals.

Survey respondents by type of company



Source: Ti

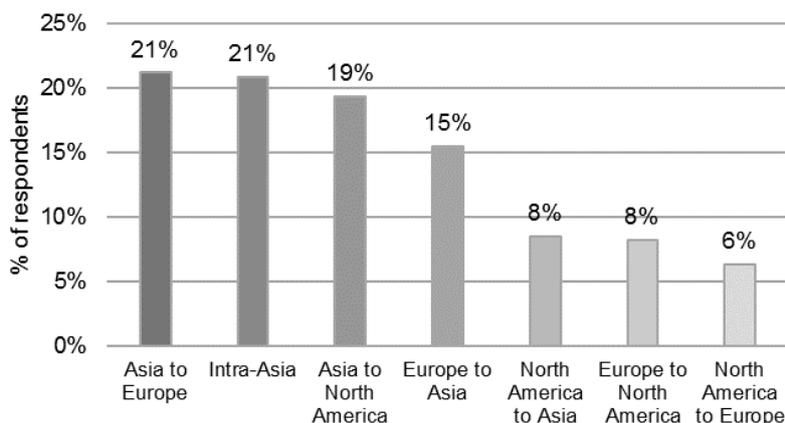
1.1 TRADE LANE ANALYSIS

Respondents were asked to rank the three air and sea global trade lanes they consider to offer the best prospects for volume growth over the next five years. A score was calculated in order to rank the trade lanes. Three points were awarded for the first preference, two points for the second preference and one point for the third preference.

1.1.1. AIR FREIGHT

The top three air trade lanes identified by respondents as the most promising in the next five years all originate in Asia. These were the Asia - Europe, Intra-Asia and Asia to North America trade lanes. The findings suggest universal confidence among supply chain professionals that Asian export volumes will increase in the next five years. The findings also suggest that trade on the Intra-Asia lane will increasingly benefit from the rapid growth of consumption in Asia in the next five years, as a high percentage of cargo will be shipped to end markets within the region. The inference here is that the high confidence in the Intra-Asia air cargo expansion is largely based on Chinese economic conditions.

Which three air trade lanes do you believe offer the best prospects for volume growth in terms of air tonnes over the next five years?



Source: Ti

Respondents also expressed relatively strong confidence in the Europe-Asia trade lane. The reduction of capacity in Europe-Asia eastbound by ocean carriers which has caused volumes to spill from sea to air transport could have affected participants' prospect evaluation of this trade lane.

Prospects do not appear to be so strong for the North America-Asia and North America-Europe air trade lanes, with the strength of the US dollar being one of the potential reasons for the low confidence.

1.1.2. SEA FREIGHT

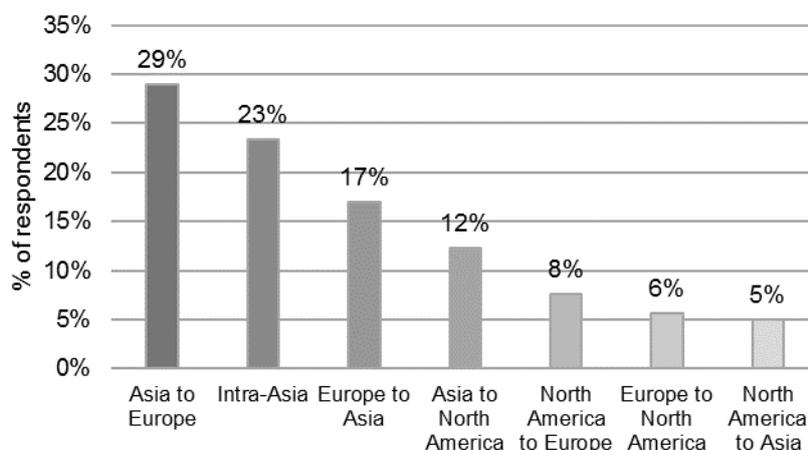
As with air freight, Asia to Europe and Intra-Asia appear to be viewed as the most dynamic sea trade lanes according to survey findings, thus providing corroborating evidence for the robust market confidence in strong Asian exports. Over a quarter (29%) of respondents believe that the Asia-Europe sea trade lane holds the strongest potential for volume growth, followed by the Intra-Asia trade lane, which was selected by 23% of the respondents.

The Europe-Asia lane was considered the third most promising sea trade lane by respondents (17%). This is likely to be due to recent forecasts which have been suggesting a brighter outlook for the European economy, encouraging respondents to place strong prospects in this trade lane.

As with air freight, confidence among supply chain professionals is more fragile for North America trade lanes.

Overall, for the next five years the survey suggests world trade patterns which are fairly consistent with the trade lane performance we are currently witnessing. The key feature of these global trade patterns is Asia's dominance in the top three air and sea trade lanes.

Which three sea trade lanes do you believe offer the best prospects for volume growth in terms of sea TEUs over the next five years?



Source: Ti

1.2 PROFIT MARGINS IN THE GLOBAL FREIGHT FORWARDING MARKET

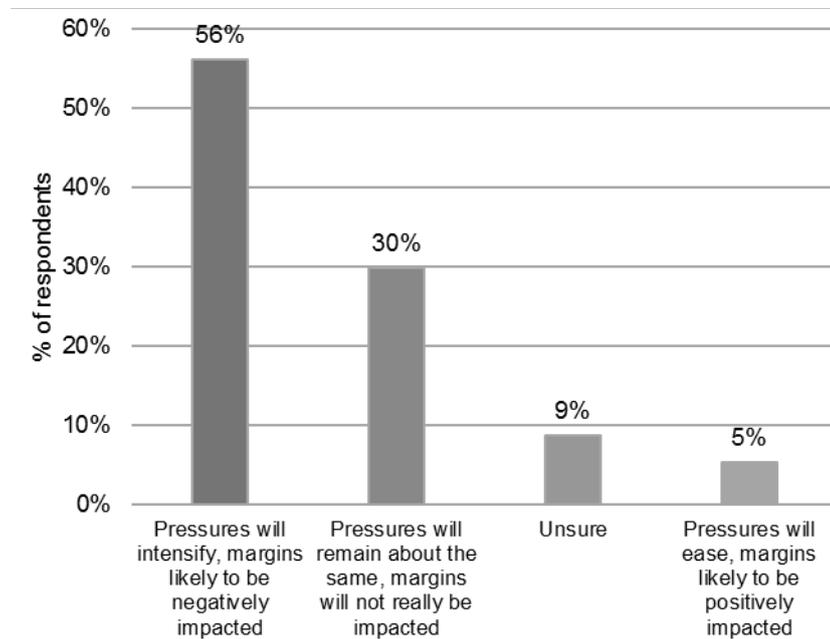
Over half of the respondents believe that pressures on profit margins in the freight forwarding sector will be negatively impacted in the next five years. Several factors could have lead supply chain professionals to anticipate a squeeze on margins in the industry.

Overall, the increasingly competitive landscape in the forwarding industry is likely to challenge forwarders' traditional bargaining power with shippers, forcing them to operate on thin margins.

The pessimistic forecasts could also be explained by the threat of potential disintermediation in the industry, which involves the removal of freight forwarders from the relationship between shippers and carriers. The key parties here include tech start-ups and ocean carriers which can generate value by disintermediating inefficient middlemen and thereby disrupt the forwarding sector. The immediate impact of this is that shippers can rely on technology solutions to collaborate with carriers directly, rather than relying on forwarders in order to take advantage of operational savings opportunities.

In addition, technological innovations which are facilitating and improving price transparency could have lead respondents to believe that margins will be squeezed in the future. This type of technology makes shippers better informed of market rates and competitive offerings, thus contributing towards declining freight rates and consequently tighter margins.

Excluding the impact of volume and rate changes, how do you believe that pressures on profit margins in freight forwarding will change over the next five years?



Source: Ti

1.2.1 FREIGHT FORWARDERS' STRATEGIES FOR SUSTAINING PROFIT MARGINS

Participants were asked to rate the three most successful strategies adopted by forwarders to sustain profit margins. Even though, as suggested in the previous page, respondents appear rather pessimistic about the profitability of freight forwarding services, they are more positive about the development of technology solutions as a way of mitigating pressures on margins. Leveraging technology is likely to be the most successful strategy in pulling back eroding margins in the next five years, according to respondents.

In addition to this, the development of value-added services is also perceived as a key strategy to prevent margin erosion. These findings suggest that forwarders will need to recognise shippers' demands for digital and value-added services, and act upon them.

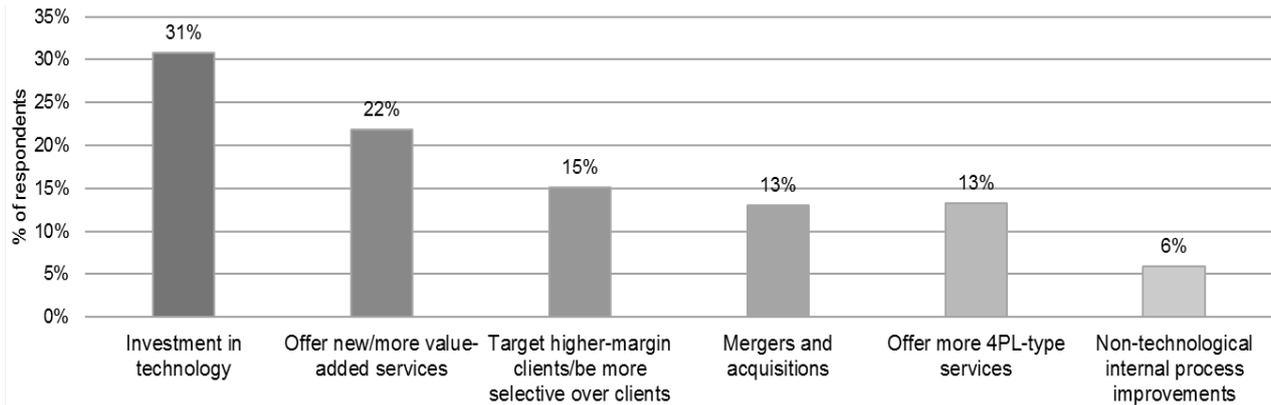
The relatively high ranking of these two strategies compared to the remaining strategies is indicative of a general view that forwarders

that do not digitise and do not offer more value-added services will get left behind by the competition.

Likewise, the relatively low importance attached to other strategies such as inorganic growth, 4PL service offering or non-technological internal process improvements suggest that supply chain professionals expect only minimal gains from adopting these types of strategies.

Another explanation for the relatively low ranking of 4PL services could be that supply chain professionals do not anticipate sufficient demand for these types of services in the next five years. The perception that 4PL services will not be a particularly effective strategy in sustaining profit margins might also be explained with the fact that 4PL services are heavily dependent on the deployment of technology, which in turn requires significant investments.

Over the next five years, what will be the three most successful strategies adopted by forwarders to sustain profit margins?



Source: Ti

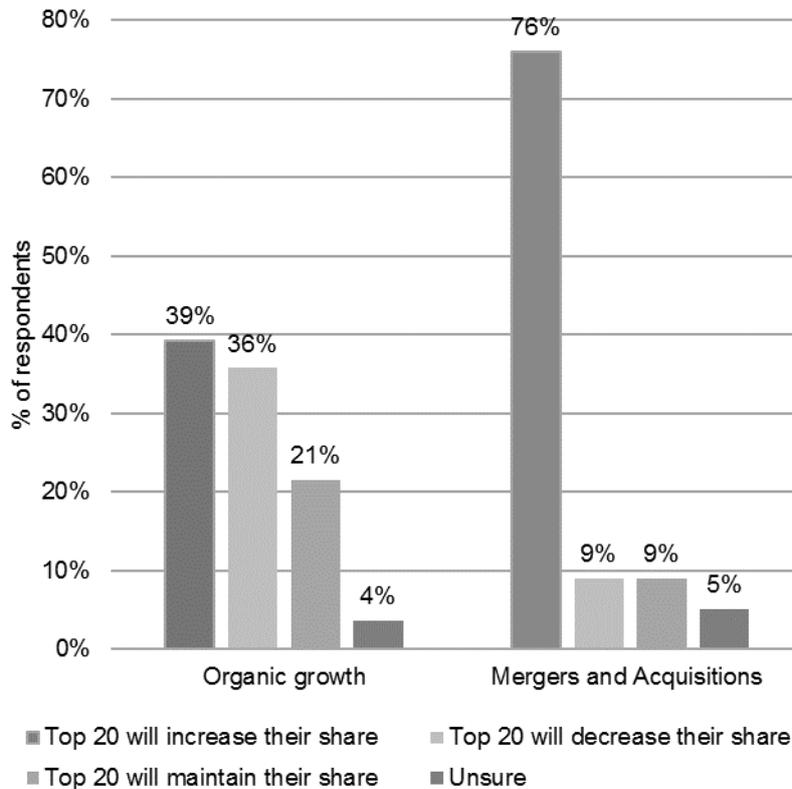
1.3 MARKET PERFORMANCE OF THE TOP 20 FREIGHT FORWARDERS

Participants were asked to evaluate the impact of organic and inorganic growth on the market share of the top 20 players in the freight forwarding industry.

There is general agreement among survey respondents that inorganic growth is far more likely to increase the collective market share of the top 20 forwarders than organic growth. Just over three quarters of respondents share the view that M&A will remain particularly important tool for forwarders to address their growth aspirations. It is likely, therefore, that the aspiration to attain strong market positions will fuel M&A activity in the next five years. This will mark a continuation of the consolidation trend across the freight forwarding industry which has seen the top forwarders capitalise on growth opportunities through inorganic growth.

On the other hand, there is a more even distribution of results when it comes to the impact of organic growth on the top players' collective market share. The key finding that emerges here is that supply chain professionals recognise that organic growth might not be sufficient to achieve growth over the next five-year period. A large proportion of participants (36%) stated that organic growth is likely to decrease the market share of the top 20 players. These results suggest that small freight forwarders will be likely to compete effectively against the big players and take market share from them in the next five years.

Over the next five years, how do you believe that the collective market share (in revenue terms) of the top 20 players in the freight forwarding market will change due to the following factors?



Source: Ti

1.4 DISINTERMEDIATION IN THE FREIGHT FORWARDING MARKET

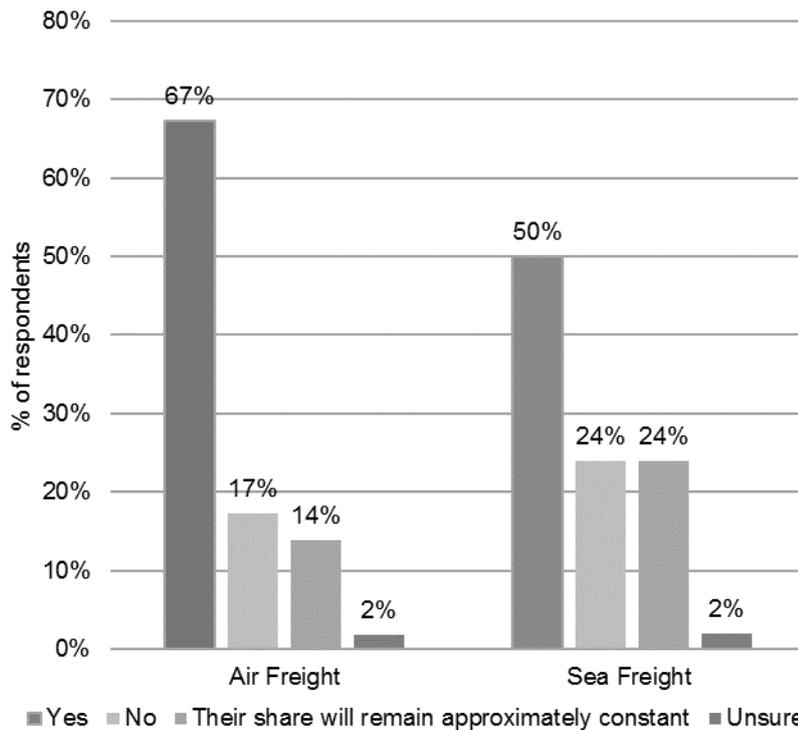
The chart to the right clearly suggests that supply chain professionals recognise the threat of other parties, such as carriers, tech start-ups, Amazon etc., in shaking up the international freight forwarding market. A total of 67% of participants agreed that conventional air freight forwarders will lose volume share to these third parties. Another striking finding are the polarising opinions among respondents when it comes to disintermediation in the sea freight industry. Only half of respondents are convinced that sea freight forwarders will be removed from the relationship between the shipper and the ocean carriers.

Several factors may account for this. The tendency to see a greater threat in air freight rather than sea freight is consistent with the overall trend in the air freight industry in the last few years, which has seen forwarders losing market share to integrators. As integrators, such as DHL, UPS, TNT and FedEx, moved into the general freight business, traditional air freight forwarders have seen their market share eroded. This trend of market share deterioration at the hands of the integrators is likely to continue in the next five years, according to

respondents. Another factor accounting for this view could be Amazon’s logistics intentions in the air freight market, enhanced with investments in its own plane fleet. Amazon’s plans to bring shipping in-house and therefore bypass forwarders is likely to have lead respondents to anticipate volume share loss to third parties.

Finally, the survey reveals divided views regarding the threat of losing volume share in the sea freight market. The suggestion here is that declining ocean carrier performance is likely to make the role of forwarders, in helping shippers to run ocean freight contracts, more critical. With ocean carriers increasingly focusing on reducing costs and regional sales forces, the much needed proximity to customers has been diminished and, if this trend continues, it is unlikely that forwarders will lose volume share to carriers.

Over the next five years, do you believe that conventional freight forwarders will lose volume share to other parties (such as carriers, tech start-ups, Amazon etc.)?



Source: Ti

1.5 IMPACT OF REGIONALISATION ON FREIGHT FORWARDING REVENUES

The survey findings suggest that, overall, supply chain professionals are unclear as to the impact of regionalisation on freight forwarders’ revenues. This particularly applies to sea freight for which respondents have fairly contrasting views.

These findings can be explained in part by the current strategies adopted by both air and sea freight forwarders to mitigate the risk of yield dilution due to regionalisation. Namely, with regionalization having shifted trade flows, freight forwarders have been responding to these changes by identifying areas in which they can achieve most growth. This includes greater

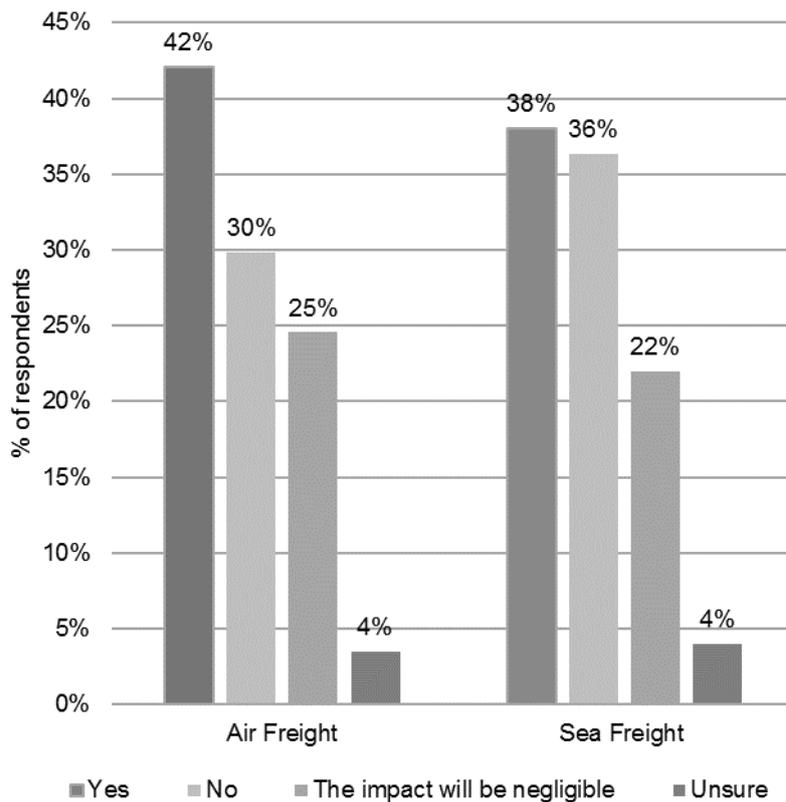
focus on emerging markets and/or more lucrative industry sectors such as perishables and healthcare.

Another explanation could be that respondents take into account the increasing number of road and rail freight services that forwarders can offer in order to offset the negative impact of regionalisation on their revenues.

Finally, the results could also echo respondents' view that the supply chain will remain primarily a complex global system, leading them to infer that freight forwarding revenues will not be affected.

Overall, the findings suggest that regionalization is not perceived as a particular threat to freight forwarding revenues and that forwarders are unlikely to see their yields diluted as a result of the regionalisation trend. This outcome is likely to be the result of forwarders being agile enough to adapt their freight forwarding strategies and product solutions and identify areas in which they can achieve the most growth.

In the long run, do you believe that the trend towards increasingly regional supply chains (rather than global) will have a negative impact on freight forwarding revenues?



Source: TI

1.6 VERTICAL MARKET GROWTH OPPORTUNITIES

As in the previous questions, a score was calculated in order to rank the vertical sectors that offer the best prospects for volume growth in air freight. Three points were awarded for the first preference, two points for the second preference and one point for the third preference.

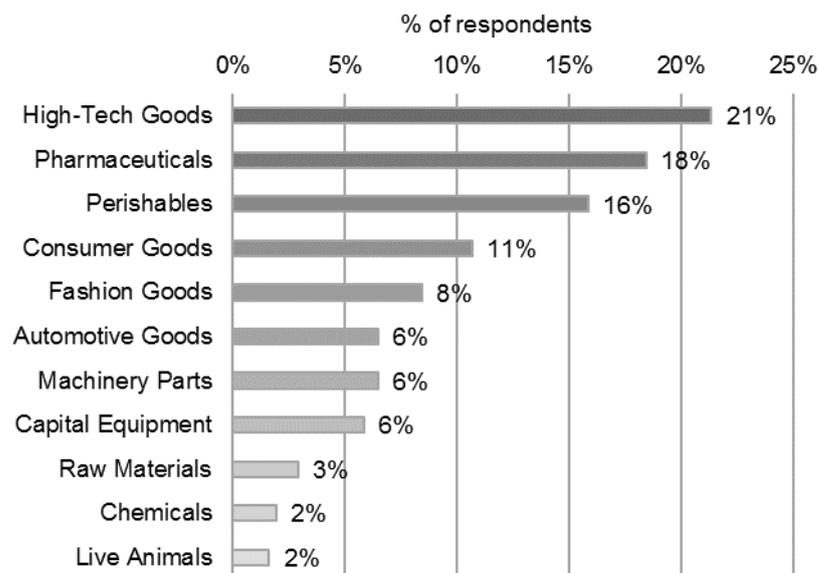
High-tech goods offer the best prospects for volume growth in air freight in the next five years, according to respondents. This category was followed by pharmaceuticals and perishables (18% and 16% respectively).

The ranking of high-tech goods is interesting because it contradicts the trend of decreasing volumes of air freighted electronics. One possible explanation behind this could be that respondents take into consideration the successful penetration of high-tech companies in emerging markets. Nonetheless, the results also appear to dismiss the modal shift towards sea freight in the high-tech vertical.

Respondents' prospect evaluation of pharmaceuticals and perishables echoes the ongoing trends in the air freight industry. Time- and temperature-sensitive pharmaceuticals are demonstrating robust growth and the survey findings suggest a continuation of this trend in the next five years. Similarly, the market for perishables is currently thriving: the volume of perishables being flown has risen by a third since 2007. The survey suggests that we are likely to see this trend continue.

Overall, the survey suggests that high-tech goods, pharmaceuticals and perishables will represent golden opportunities for air freight forwarders in the next five years.

Over the next five years, on a global basis, which three sectors offer the best prospects for volume growth in air freight?



Source: Ti

1.7 USE OF ONLINE PLATFORMS

The results below illustrate a growing interest in the use of online quotation and booking tools to increase the ease and speed with which customer interactions can be conducted.

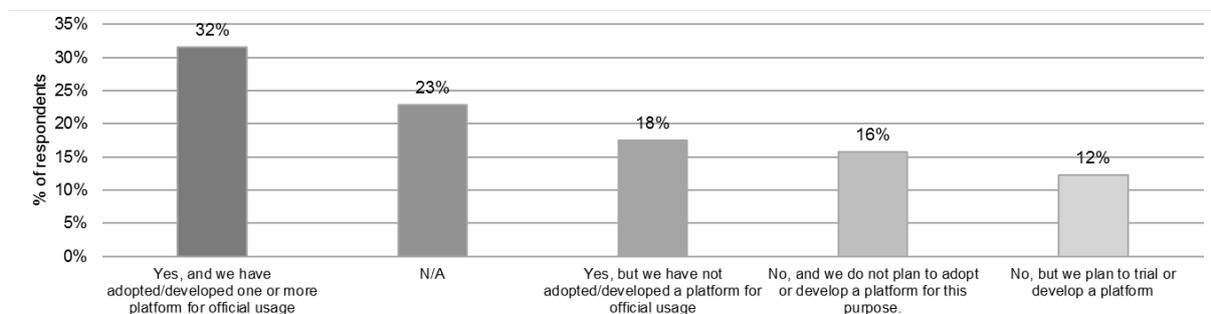
Half (50%) of the respondents have trialled the use of such platforms. Of those, 64% went on to adopt or develop such a system for use as a permanent solution within their organisation. This figure is particularly impressive considering that not all of the respondents are representatives of freight forwarding companies. Meanwhile, 36% of those who had trialled a system did not go on to officially use it.

Over a quarter of respondents (28%) had no experience of these platforms. Of these, 43% have a plan to trial or develop a platform, whilst 57% do not.

The remaining 23% of respondents stated that the question was not applicable; presumably because they do not work for a freight forwarder.

In sum, it appears as though there is a lot of interest in online booking and quotation platforms from within the freight forwarding industry. The adoption rate at present is moderate, though it is likely to increase over time as the technology matures.

Has your company used an online platform for the quotation or booking of international freight, either in the role of shipper, forwarder/3PL or carrier?



Source: Ti

1.7.1 PERFORMANCE EVALUATION OF ONLINE PLATFORMS

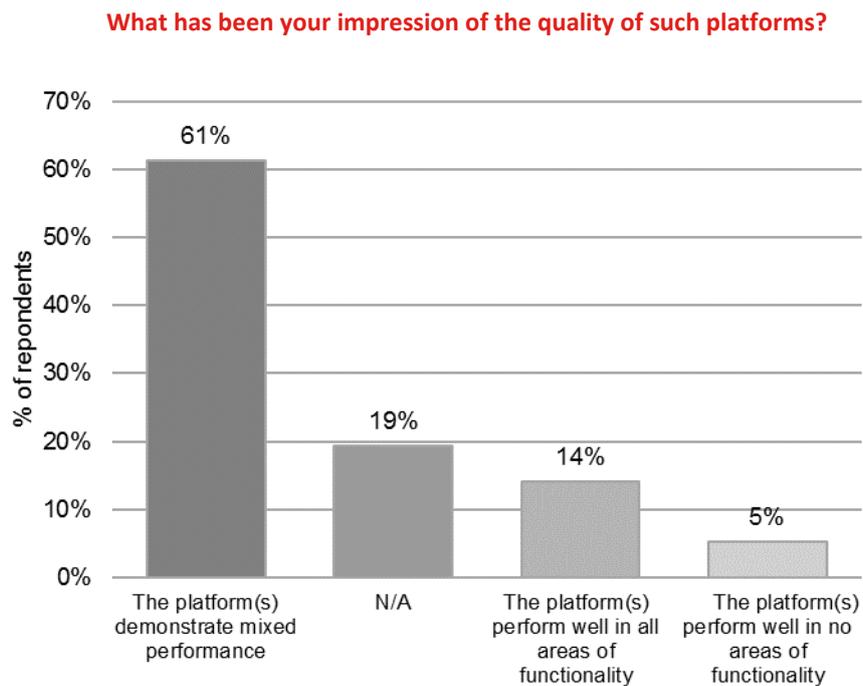
Reflecting upon the previous question, it is clear that the current performance of online booking and quotation platforms has restricted forwarder uptake.

Of those survey participants who had experience of an online quotation and booking platform, 61% noted that performance was mixed.

Meanwhile, only 14% of respondents found that the platform they have worked with delivers solid functionality in all of its aspects, though this is at least a greater proportion of participants than the 5% who claimed that the platform they worked with performed well in no areas of functionality.

The remaining 19% of respondents stated that the question was not applicable.

Looking at these results, some forwarders may feel that the quotation and booking platforms do not offer value for money at present. Nevertheless, many others are clearly willing to embrace the potential of these systems in order to gain an edge on their rivals, even if this may only apply to certain shipments on certain routes.



Source: Ti

CONTACT

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If you have questions about this survey or would like to discuss Ti running a survey for you please contact Michael Clover, E: mclover@ti-insight.com or T: +44 (0) 1666 519907

About Ti



Ti's Origin and Development

Ti is a leading logistics and supply chain market analysis company developed around five pillars of growth:

- Logistics Briefing
- Ti Market Research Reports
- Ti Insight portals
- Ti Consulting
- Ti Conferences and Training

Ti acts as advisors to the World Economic Forum, World Bank, UN and European Commission and have 14 years worth of providing expert analysis to the worlds leading manufacturers, retailers, banks, consultancies, shipping lines and logistics providers.

What Sets Ti Apart?

- Globally recognised and trusted brand
- Global Associate Network provides a multi-country, multi-disciplinary and multi-lingual extension to Ti's in-house capabilities
- More than fourteen years of knowledge delivery to global manufacturers, retailers, banks, consultancies, shipping lines and logistics providers
- Unique web-based intelligence portals
- Interactive dashboard
- On-going and comprehensive programmes of primary and secondary research