

Research Paper



A STUDY ON THE PROBLEMS RELATED TO FREIGHT FORWARDERS IN THE CHENNAI SECTOR

Dr.J.Rengamani¹

¹Associate Professor, AMET Business School, AMET University, Chennai, Tamil Nadu, India

ABSTRACT

Freight forwarders typically arrange cargo movement to an international destination. Also referred to as international freight forwarders, they have the expertise that allows them to prepare and process the documentation and perform related activities pertaining to international shipments. Some of the typical information reviewed by a freight forwarder is the commercial invoice, shipper's export declaration, bill of lading and other documents required by the carrier or country of export, import, or transshipment. Much of this information is now processed in a paperless environment. A freight forwarder organises the safe, efficient movement of goods on behalf of an exporter, importer or another company or person, sometimes including dealing with packing and storage. Taking into account the type of goods and the customers' delivery requirements, freight forwarders arrange the best means of transport, using the services of shipping lines, airlines or road and rail freight operators. In some cases, the freight forwarding company itself provides the service. Companies vary in size and type, from those operating on a national and international basis to smaller, more specialized firms, who deal with particular types of goods or operate within particular geographical areas.

KEYWORDS: Freight Forwarders, Cargo, Port, Sea Freight, International Shipments.

1. INTRODUCTION

Freight Forwarding and logistics business started from the late seventies with the momentum of growth in the export sectors particularly the export of readymade garments to USA and European markets. In the beginning exports of garments to the European markets had a lesser share but today, USA and Europe commands roughly 50:50 of exports of the item. In case of ocean export, extra capacity is available to meet the increasing demand. In air export, the scheduled carriers have more or less fixed capacity and the increasing demand for space is met through operation of extra sections and freighters by scheduled carriers and chartering of aircrafts by individual freight forwarders during peak seasons. On the other hand during lean periods, regular flights often operate below full load.

A freight forwarder is an individual or company that dispatches shipments via asset based carriers and books or otherwise arranges space for those shipments. Common carrier types could include waterborne vessels, airplanes, trucks or railroads. As an analogy, freight forwarders have been called travel agents for freight. In the U.S., a freight forwarder involved with international ocean shipping is licensed by the Federal Maritime Commission as an Ocean Transportation Intermediary.

1.1 Typical work activities of Freight Forwarders

The typical work activities of Freight Forwarders are as follows:

- Researching and planning the most appropriate route for a shipment (taking account of the perishable or hazardous nature of the goods, cost, transit time and security)
- Arranging appropriate packing (taking account of climate, terrain, weight, nature of goods and cost) and delivery or warehousing of goods at their final destination
- Obtaining, checking and preparing documentation to meet customs and insurance requirements, packing specifications, and compliance with overseas countries' regulations and fiscal regimes
- Offering consolidation services by air, sea and road - ensuring cost effective and secure solutions to small shippers with insufficient cargo to utilize their own dedicated units;
- Liaising with third parties to move goods (by road, rail, air or sea) in accordance with customer requirements
- Arranging insurance and assisting the client in the event of a claim



- Offering tailored IT solutions and EDI (electronic data interchange) connections
- Arranging payment of freight and other charges, or collection of payment on behalf of the client
- Transmitting data by internet and satellite systems, enabling real-time tracking and tracing of goods
- Arranging air transport for urgent and high-value freight and managing the risk door to door
- Arranging charters for large volume, out-of-gauge or project movements by air and sea
- Acting as broker in customs negotiations worldwide to guide the freight efficiently through complex procedures
- Arranging courier and specialist hand-carry services
- Working closely with customers, colleagues and third parties to ensure smooth operations to deadlines
- Maintaining visibility and control through all phases of the journey, including the production of management reports and statistical and unit cost analysis
- Acting as consultant in customs matters
- Maintaining current knowledge of relevant legislation, political situations and other factors that could affect the movement of freight.

1.2 Problems of Freight Forwarders

On one view, the forwarder's carriage contract should not be called a bill of lading, as to call it a bill of lading is a misnomer, as these documents are not really documents of title but merely receipts. And by calling them bills of lading, forwarders are attracting all the liability (and often more) of an actual carrier. A more accurate name for these documents is consignment note. In addition, a forwarder who asserts he is a principal and thereby sub-contracts to the actual carrier is involving himself unnecessarily as a defendant in cargo claim litigation, and attracting liability for loss or damage caused by the actual carrier which he need not have. When a freight forwarder represents that it is the actual carrier of the goods it is creating a number of problems which can be avoided.

- Assumes responsibility for loss or damage to the cargo as if it is the actual carrier under one of the international conventions, for example, under the amended Hague Rules relating to sea carriage which imposes a compulsory minimum limitation of 666.67 SDR per package or shipping unit or 2 SDR per kg, whichever is the greater
- Prevents the cargo interests from pursuing the actual carrier for loss and damage
- Voluntarily adopts a package limitation which does not otherwise apply to them
- Loses the right to exclude all liability
- These results are not in the freight forwarder's commercial interests as it voluntarily and unnecessarily assumes the burden of a defendant in cargo claims.

The problem for freight forwarders appears to arise by default rather than design as it is not entirely clear why they would want to voluntarily assume the role of a defendant in cargo claims when this onerous burden can be avoided.

- No thought has been given to the name of the document being used by the freight forwarder
- Little thought has been given to the issues which should be addressed

- Terms and conditions are a 'cut and paste' of those used by competitors
- The freight forwarder wants to represent that it owns or operates the aircraft or ships on which the cargo is carried.

1.3 Freight Forwarding Market

Freight forwarding includes warehousing, storage and customs-clearance activity. It supports the international freight-services market, which includes international freight transport operations by road, air, sea and rail. Largely because of improvements in transport efficiency, demand for such freight services has increased less than proportionately to growth in gross domestic product (GDP). However, over the 5-year review period (2010 to 2015), growth experienced by the freight-forwarding sector exceeded growth in the freight-transport sector as a whole.

Recent influences supporting the growth of the freight-forwarding sector have included the trend towards outsourcing of non-core business activities by many firms across the commercial spectrum, the growing complexity of regulation affecting international trading relationships, and an increasing awareness of security considerations. All of these factors have made it more beneficial for clients to use the services of a professional forwarder, but other developments, which have reduced the regulatory burden on shippers and transport operators alike, have lessened the benefits of using these specialists. Noteworthy among these has been the progressive deregulation of transport markets within and between the member countries of the European Union, with the dismantling of customs barriers between member countries removing the need for many of the specialist services formerly provided by the freight forwarder.

Other influences affecting the sector in the recent past have included the need to comply with many onerous regulations, including those concerning terms and conditions of employment, which have had a disproportionate impact on the many smaller freight forwarders operating in the sector.

Road transport remains the dominant mode for international freight transport, but sea freight showed the highest growth over the review period, with receipts from cross trades showing a particularly large increase. Although the share of air freight is small in terms of tonnage carried, it represents a much higher share in terms of the value of items carried and the service provided.

Independent forecasts of the development of the India economy indicate that it will continue to experience steady if modest economic growth over the period to 2020, with inflation and unemployment continuing at relatively low levels. This, together with further market globalisation, an increased awareness of security and environmental issues, and the continuing development of IT applications to enhance the value of the freight-forwarding product, suggest a favorable environment for the continued growth of the sector.

2. LITERATURE REVIEW

Contestable market refers to a market where there are only a few companies that behave in competitive manner because of the threat of new entrants. A market deems to be contestable if entry and exit are relatively easy. A market is perfectly contestable if entry is absolutely free and exit is costless (Baumol, 2016).

Viet Linh Danga & Gi Tae Yeo have specified that the importance of planning strategies to achieve higher competitiveness has become more apparent in the context of

seaports since seaports have been encountering quickly changing and highly competitive business environments. Therefore, the strategic competitive position of seaports needs to be investigated using strategic positioning methods.

Soo Yong Shin & Myong Sop Pak has specified that the roles of freight forwarders as intermediaries continue to expand and become significant in international logistics. Purchasing negotiation is considered an important business process for freight forwarders and achieving a successful negotiation outcome should help forwarders to manage their business more effectively. This study used the analytical hierarchy process (AHP) approach to identify the critical factors for successful purchasing negotiation for freight forwarders in Korea. A three-level AHP structure was constructed to examine the successful purchasing negotiation.

The paper of Heejung Yeo (2016) finds that liquidity is closely related to the leverage of shipping companies. The negative association between the asset liquidity and the leverage level implies that there exist conflicts of interest between managers and investors. Shipping firms have a comfortable high liquidity position, but they have a high degree of leverage. They need to take steps to reduce debts. There is evidence of heterogeneity in the determinants of leverage level.

A buyer and seller relationship always exists in industrial markets, and the negotiation that they establish as the terms of purchase agreement is a fundamental phenomenon in inter-firm exchange behaviors, according to Dobler et al. (1984). Industrial purchases have been best viewed as “negotiated settlements” (Bonoma & Johnston, 2002) and, as such, negotiation is commonly a major component of comprehensive models of industrial buyer-seller relationships (Kutschker, 2015).

The first shipping alliance formed between Maersk and Sea-Land in the 1990s. Compared to liner conferences, shipping alliances are also coalitions of carriers, but are not involved in price setting. One of the shipping alliances’ main objectives is to offer shippers greater geographical coverage through cooperation (Haralambides & Veenstra, 2000).

3. RESEARCH OBJECTIVES

The objectives of the study are given below:

- To study the functions and work activities of freight forwarders
- To study the problems faced by freight forwarders

4. RESEARCH HYPOTHESIS

In order to achieve the objectives, this article is organized around the following working hypotheses:

- H₁₁: There is a significant difference in the core competencies of Freight Forwarders.
- H₁₂: There is a significant difference in the problems faced by Freight Forwarders

5. METHODOLOGY

The target population of the current study happens to be the freight forwarders of Chennai who are the middlemen between the shipping lines and the exporter/importer. The Primary data are collected from the freight forwarders who are utilizing the services of the major shipping lines in the Chennai sector. The information from the freight forwarders has been collected with the help of a structured questionnaire. Here Samples are collected based on stratified sampling with the sample size of 80.

5.1 Research Tool

The functions & work activities (core competencies) and problems faced by the freight forwarders were measured on a five-point scale from 1 (strongly disagree) to 5 (strongly agree). The questionnaire designed for the evaluation of subjective perception of core competencies and problems faced by freight forwarders in Chennai sector. The Cronbach’s alpha values were calculated to check the consistency and reliability of data collected through the survey. The researcher has collected information from 80 freight forwarders in Chennai. The hypothesis has been tested by using Student’s t-test at 5% level of significance.

6. ANALYSIS AND INTERPRETATIONS

6.1 Descriptive Data Analysis

The descriptive data analysis of the freight forwarders to identify the core competencies of the major shipping lines are discussed below.

Table-1: Descriptive Data Analysis

Descriptive Factors	Frequency	Percentage
Length of Service in the Freight Forwarding		
<2 years	5	6.25
2-5 years	9	11.25
5-10 years	28	35.00
10-15 years	21	26.25
>15 years	17	21.25
Shipping Line used for Exports & Imports		
APL	9	11.25
CMA-CGM	10	12.5
HANJIN	4	5
HL	5	6.25
HMM	2	2.5
KLINE	4	5
MAERSK	17	21.25
NYK	8	10
PIL	4	5
PONL	12	15
RCL	3	3.75
SCI	2	2.5

Frequency of Sales Personnel Visit		
Weekly	18	22.5
Fortnightly	16	20
Monthly	5	6.25
On request	41	51.25
Time Taken to Provide the Freight Rates		
Instantly	18	22.5
Few hours	2	2.5
One day	5	6.25
More time	17	21.25
Depends	38	47.5
Satisfaction of Transit Time Provision		
Very much satisfied	10	12.5
Satisfied	46	57.5
OK	22	27.5
Dissatisfied	2	2.5

From Table-1, it can be inferred that out of 80 respondents, 35% of the respondents are doing the freight forwarding business for 5-10 years. 21% of the respondents are utilizing the services offered by MAERSK line and this is followed by PONL, CMA, APL and NYK with 15%, 13%, 11% & 10% respectively. 51% of the respondents have specified that the frequency of Sales personnel visit to their company is based "on request". 48% of the respondents have specified that the time taken by the shipping line to provide the Freight Rates "Depends" on various factors that are normally considered. 58% of the respondents are satisfied with the Transit Time provided by their shipping lines.

6.2 Cronbach's Alpha & Student's t-test

The core competencies of shipping lines were studied through the 5-point Likert Scale. In order to test the consistency and reliability of the scale, Cronbach's Alpha values were calculated. All the Cronbach's Alpha values were above 0.86 and hence it can be concluded that the scales are consistent and reliable.

The result of the Questionnaire survey regarding the core competencies of shipping lines shows that the p-values of all the competency factors are less than 0.05 (Table-2). This clearly indicates that the freight forwarders expect a

sort of competitive freight rates and lesser Transit Time in taking the containerized cargo in both exports & imports. The freight forwarders would never mind in switching to the rival shipping line if the rival is going to offer better freight rates and lesser transit time. Hence these two options are considered to be the most sought-after Core Competencies in the selection of the shipping line. In the technology oriented world, the freight forwarders expectations are more towards the provision of online services of various shipping lines. The freight forwarders would like to complete their operations at a faster pace and also with higher accuracy. To satisfy their requirements, each and every shipping line has come out with an array of online/internet services. Using these online services, it would be possible for the freight forwarders to accomplish their tasks at great ease. This might be the reason for the selection of this service by the freight forwarders. Moreover the freight forwarders expectations with their shipping lines are more oriented towards the provision of information on-time. The reason may be due to the urgency of taking the containerized cargo to their due destinations at the quickest possible time with less money spent on the freight rates.

Table-2: t-test values for testing the core competencies of shipping lines

Competency factors	t	p
Availability of Containers	3.08	0.004
Container Tracking	3.15	0.017
Online Services	3.22	0.008
Offering Best Freight Rates	3.44	0.012
Less Transit Time	3.27	0.013
Feedback Services	3.52	0.002
Customer Services	2.25	0.016
Documentation Services	2.42	0.014
Port Services	2.01	0.011

6.3 Factor Analysis

The factor Analysis has been used to identify the concise number of factors in order to analyse the second

hypothesis. The pattern matrix of the factor analysis together with the factor loadings with the application of varimax rotation is given in Table-3.

Table-3: Pattern Matrix of the Problems of Freight Forwarders

Factors related to Freight Forwarders Problems	Factor Loadings
Factor-1: Problems faced in relation to the Business operation	
Customs Operations	0.85
Agents and Counter party	0.84
Shippers of Cargo	0.82
Liner Companies	0.81
Factor-2: Problems faced in Documentation departments	
Container number	0.82
Price quotation	0.81
Vessel no. and name	0.82
Delivery	0.80
Destination	0.82
Quantity of the product	0.84
Terms of payment	0.81
Factor-3: Problems faced in Transportation departments	
Non availability of trailers & trucks	0.71
Stuffing	0.78
Natural calamity	0.72
Strikes	0.74
Routing & Scheduling	0.71
Improper survey	0.76
Less than truck load	0.74
Loading & Unloading	0.72
Non availability of documents	0.71
Accidents	
Factor-4: Problems faced in the Core Competencies	
Container Tracking	0.81
Online Services	0.76
Offering Best Freight Rates	0.81
Less Transit Time	0.78
Feedback Services	0.77
Customer Services	0.75
Port Services	0.74

Factor 1 consisted of items related to the problems faced by freight forwarders in relation to the Business operation which consists of Customs Operations, Agents and Counter party, Shippers of Cargo, Liner Companies, Factor 2 consisted of items related to the problems faced by freight forwarders in Documentation departments which consists of Container number, Price quotation, Vessel no. and name, Delivery, Destination, Quantity of the product, Terms of payment. Factor 3 consisted of items related to the problems faced by freight forwarders in Transportation departments which consists of Non availability of trailers & trucks, Stuffing, Natural calamity, Strikes, Routing & Scheduling, Improper survey, Less than truck load, Loading & Unloading, Non availability of documents, Accidents. Factor 4 consisted of items related to the problems faced by freight forwarders in Core Competencies which consists

of Container Tracking, Online Services, Offering Best Freight Rates, Less Transit Time, Feedback Services, Customer Services, Port Services.

The factors such as Business Operation, Documentation departments, Transportation departments and Core Competencies have good internal consistency and reliability, which is evident through Cronbach's Alpha Values such 0.92, 0.91, 0.94 & 0.88

6.4 One Way ANOVA

One way ANOVA was conducted on the selected factors such as Business Operation, Documentation departments, Transportation departments and Core Competencies. The comprehensive results of one way ANOVA are presented in Table 4. It is evident that the p-values for all the factors with regard to the problems faced by freight forwarders are less than 0.05. The details are given Table-4:

Table-4: One way ANOVA

Factors of Freight Forwarders Problems	Deck Side	
	F value	P-value
Problems faced in relation to the Business operation	3.102	0.015
Problems faced in Documentation departments	3.232	0.024
Problems faced in Transportation departments	3.411	0.023
Problems faced in the Core Competencies	3.112	0.011

7. CONCLUSION

The core competencies of the shipping lines are Freight Rates, Transit Time, Availability of containers, Online services and Container tracking. The decision to fix up a particular shipping line largely depends on the Freight rates offered by the line. It essentially means that the shipping line which offers lesser freight rates would obviously be selected by the freight forwarders in the container trade. This will force all the shipping lines to set a sort of competitive freight rates to stay alive in the market. Transit time is also given an equal importance in the selection of a shipping line. Nowadays, this service is given a predominant importance in the selection of the shipping line in the container trade and has ultimately become a core competency. The online/internet services offered by the shipping line will facilitate the accomplishment of various activities/operations that are connected with the export and import of containerized cargo in the container trade. The freight forwarders have started giving more importance to the Container tracking facility offered by the shipping line. The container tracking facility will put the freight forwarder to know the exact location of the containers which are loaded with the cargo. This facility will be immense use in the process of identifying the whereabouts of the containers and hence this service has also become a core competency in the selection of the shipping line.

8. REFERENCE

1. Alphaliner, 2015, ALPHALINER database, <http://www.alphaliner.com>, [Accessed 15 June 2017].
2. Baumol, 1982, Contestable markets: an uprising in the theory of industry structure, *American economic review*, 72 (1) (1982), pp. 1-15
3. D.K.Sharma, "The growing ports of India", Lakshmi Publications, New Delhi, 2003
4. Dr.Jose Paul, "Containerization in India". Express Exim review, Mumbai, 1997
5. Eric Rath, "Container Systems", John Wiley & Sons, New York
6. Fusillo, 2012, The stability of market shares in liner shipping, *Review of Industrial Organization*, 42 (1) (2012), pp. 85-106
7. Haralambides and Veenstra, 2000, *Modelling Performance in Liner Shipping*, Handbook of Transport Modelling, Oxford, Pergamon (2000)
8. Heejung Yeo, "Solvency and Liquidity in Shipping Companies", *The Asian Journal of Shipping and Logistics*, Volume 32, Issue 4, December 2016, Pages 235-241
9. Hirata and Murakami, 2015, Container liner shipping market contestability in alliance era, *Journal of Japan Society of Logistics and Shipping Economics*, 49 (2015), pp. 41-50
10. Hirata and Murakami, 2015, Container liner shipping market contestability in alliance era, *Journal of Japan Society of Logistics and Shipping Economics*, 49 (2015), pp. 41-50
11. J.M.Ravath, "Golden years of Indian Ports", Sanmar publications, Mumbai, 2002
12. Performance of Major Indian Ports during 1995-96, Ministry of Surface Transport Annual Report.
13. Richard and Allaway, 1993, Service quality attributes and choice behavior, *Journal of Services Marketing*, 7 (1) (1993), pp. 59-68
14. Soo Yong Shin & Myong Sop Pak, "The Critical Factors for Korean Freight Forwarders' Purchasing Negotiation in International Logistics", *The Asian Journal of Shipping and Logistics*, Volume 32, Issue 4, December 2016, Pages 195-201
15. Viet Linh Danga & Gi Tae Yeo, "A Competitive Strategic Position Analysis of Major Container Ports in Southeast Asia", *The Asian Journal of Shipping and Logistics*, Volume 33, Issue 1, March 2017, Pages 19-25
16. Wang, D., Tian, Y. and Hu, Y. (2004), "Empirical study of supplier selection strategies across the supply chain management in manufacturing companies", *International Engineering Management Conference, Proceedings*, pp 85-89.