

A STUDY ON CURRENT ISSUES PERTAINING TO FREIGHT FORWARDING AND CONTRACT LOGISTICS

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Abstract. The article is the result of a preliminary study conducted by the author on behalf of Connect Freight logistics. The purpose of the article is to study current issues of freight forwarding and contract logistics. The research methodology is the results of a survey of respondents regarding logistics operations. It is argued that logistics is the management of the movement of resources between the point of origin and the place of consumption to meet, for example, the needs of consumers or organizations. Logistics resources can include both tangible goods such as food, materials, equipment, fluids, and personnel, as well as abstract items such as time, information, particles, and energy. Logistics of physical items often involves the integration of information flow, material handling, manufacturing, packaging, inventory, shipping, warehousing and, in some cases, security. The article suggests: Improving the quality of roads will speed up the transport process; Increasing the type of consolidation services will reduce the cost so that the products are available at a low and economical cost. The main recommendations proposed by the author are: continuous improvement of port facilities in Southeast Asia is recommended; an understanding of the supply chain process is required; the growth of logistics must be at the same pace as the development of FMCG.

Keywords: logistic; development; operation; logistics resources.

JEL Classification: F10, F20, M21

Formulas: 0; **fig.:** 8; **tabl. 9;** **bibl.:** 4

Introduction. As Connect Freight logistics was working on their new operations, they had handed me an assignment to study the current issues in freight forwarding and Contract logistics and my project was based on these following TERMS:

1) *Freight Forwarding* - Logistics is the management of the flow of resources between the point of origin and the point of consumption in order to meet some requirements, for example, of customers or corporations. The resources managed in logistics can include physical items, such as food, materials, equipment, liquids, and staff, as well as abstract items, such as time, information, particles, and energy. The logistics of physical items usually involves the integration of information flow, material handling, production, packaging, inventory, transportation, warehousing, and often security.

2) *Contract logistics* - Contract logistics companies handle activities such as designing and planning supply chains, designing facilities, warehousing, transporting and distributing goods, processing orders and collecting payments, managing inventory.

Literature review. A large number of scientists investigate the theoretical and practical side of logistics operations. In paper "A content analysis of research approaches in logistics research" (Kovács and Spens, 2006), seeks to assess the use of the three different research approaches in logistics research; discuss the use of different

research methods within the three research approaches; find and discuss applications of the abductive research approach to logistics problems.

In paper "Logistics Value: Definition, Process and Measurement" (Rutner, S.M. & Langley, C.J., 2000) was clarify how value is created by logistics. Based on empirical research, definitions of value and value-added are suggested that are founded upon and related to the perspectives of practicing managers. Following a brief literature review, details are provided about the objectives and methodology of the research that was conducted. Last, managerial implications and the key messages for both logistics managers and researchers are presented.

Aims. The main research objectives are:

1) Basically, we're looking for delivery on time and no errors on quantity and products. There is also a massive trend towards reducing inventory levels. A lot of the freight forwarding companies would have traditionally had a very strong push mentality and that ends up with 30, 40, 90 days of inventory sitting in the retail operation. The retailers are now thinking more on a 15 to 20 days scale. So 3PLs that can manage that sort of challenge.

2) We want to understand the locational efficiency of freight forwarding company's manufacturing units

4) To find out Distances manufacturing units with ports near by and FMCGs in general, must be aware of the differentiations between the sales team and the operations team, at the risk of over-selling them. And for that they have to blow down the details in terms of really making sure the expertise, the know-how as well as the skills are actually available. For example, if you are shifting your supply chain from A to B, how long is it going to take you to go from A to B? And the shorter the time-span, the fewer the learning curves, the fewer mistakes that can happen, the more successful that transition will be. And I think that it is a combination of these things that an FMCG company should look for.

Methods. *Descriptive research* is used to describe characteristics of a population or phenomenon being studied. It does not answer questions about how/when/why the characteristics occurred. Rather it addresses the "what" question (What are the characteristics of the population or situation being studied?) The characteristics used to describe the situation or population are usually some kind of categorical scheme also known as descriptive categories. *Exploratory research* of research conducted for a problem that has not been clearly defined. Exploratory research helps determine the best research design, dat collection method and selection of subjects. It should draw definitive conclusions only with extreme caution. Given its fundamental nature, exploratory research often concludes that a perceived problem does not actually exist.

Exploratory research often relies on secondary research such as reviewing available literature and/or data, or qualitative approaches such as informal discussions with consumers, employees, management or competitors, and more formal approaches through in-depth interviews, focus groups, projective methods, case studies or pilot studies. The Internet allows for research methods that are more interactive in nature.

Freight forwarding and contract logistics continues to be a growth industry. Though such growth is expected to slow somewhat (from a high of 3 percent over the

past five years to about 1.5 percent in the near term), that rate will still likely outpace that of global GDP—a good situation to be in, considering current economic circumstances.

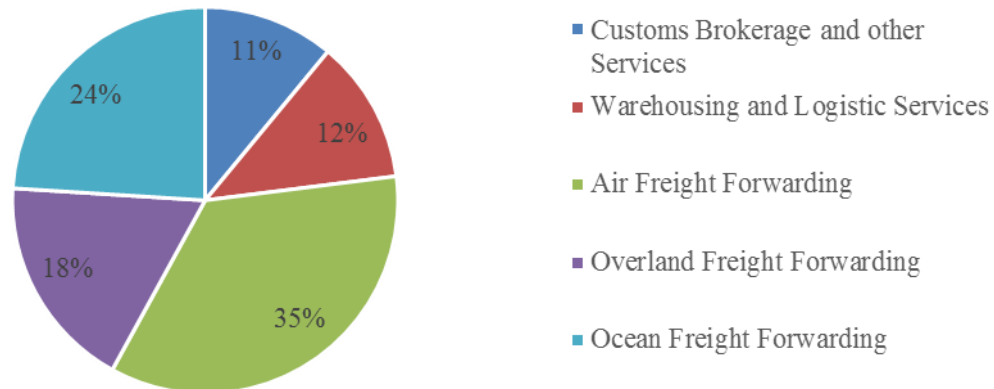


Figure 1. Analysis on Freight Forwarding

Even so, freight and logistics companies will need to deal with numerous issues in the years ahead. For example, as trade routes become more competitive and as freight rates fall, the industry's traditional bargaining power with its shippers—volume—will be challenged. One important strategy to counter this challenge is to use balance sheet strength to acquire niche players in important trade routes and geographies, especially in emerging markets.

Another key to growth and profitability will be the ability to analyze customers' needs and then respond quickly with differentiated and advanced logistics solutions. That will require better IT tools to improve internal process efficiency and to generate analyses that result in deeper understanding of customers' industries and business processes.

Industry background. As customers enter new markets, especially in emerging economies, they are demanding much more than traditional transportation and warehousing services from their freight forwarding and contract logistics providers. The ability to offer new, value-added services such as warranty processing, returns management and light manufacturing is now a differentiator, as is providing services such as customs and insurance brokerage, and trade and transportation management. In other words, the ability to become a “one-stop-shop provider” is emerging as a way to achieve differentiation and capitalize on cross-segment opportunities.

However, companies in the industry face multiple risks, particularly in light of continued global economic instability. Rising oil prices are a persistent threat. Industrial production slowed during 2011. Economic challenges in the European Union, political instability and unrest across multiple areas of the globe, and a series of natural disasters have highlighted the often-fragile nature of the freight forwarding and logistics business and the industry's customer environment.

Results. According to research, the following represent some of the most serious risks:

- *Flat growth for forwarders.* After heavy losses in 2009, the sector recovered moderately in 2010. The past year has been a difficult one, with profit growth being limited to volume growth, and with yields unlikely to improve as freight rates remain under severe pressure.
- *Pessimism about growth opportunities in air freight.* In the Asia-Pacific region in particular, the air freight business has suffered more than container shipping recently.
- *Ongoing overcapacity in ocean freight.* Shipping rates for all routes continue to decline.
- *Risk of cheap capacity.* Counter-cyclical businesses such as freight forwarding or contract logistics, with relatively flexible business models, are better able to keep margins stable in the downturn—but they risk sitting on cheap capacity in an upturn.

On the positive side, demand is rising for advanced logistics capabilities and industry-focused solutions, especially in emerging markets. The increasing number of assembly plants in these markets—including Turkey, Mexico and Thailand—has positively affected the dynamics of the logistics industry.

Companies are also responding to market and economic pressure by restructuring their logistics organizations—consolidating service providers and functions, sharing logistics facilities and centralizing management.

Domestic and international influence. Domestic and international freight forwarding is basically about providing logistical services. This involves coordinating with various cargo carriers and warehouses. It is about minimizing costs and finding the best possible routes. Although most freight forwarders merely serve as third-party agents, their tasks and responsibilities go beyond mere documentation and freight management. They also face other challenges such as legal or statutory regulations. These can include health-related issues, environmental issues, and political considerations.

The legal aspect of cargo forwarding includes both domestic and international regulations. Some regulations are highly specific to a particular country. Other regulatory provisions, however, are international in scope. These pose problems for freight forwarders in several ways.

The varying and sometimes conflicting jurisdictional and international regulations are problematic issues for freight forwarders and their respective clients. As the saying goes, “the devil is in the details.” Some countries may ban certain items that are typically legal in other countries. Despite of free trade agreements and globalization, there are still many countries that have protectionist laws. These laws may prevent the importation or exportation of certain items at a commercialized or large-scale level. However, these items might be perfectly legal at small-scale or personal levels. Other custom laws are either outdated or plainly weird.

Some of the peculiar import-export laws are detrimental to small and medium enterprises. Hence, it is important for forwarders to be familiar with these local laws to prevent inconveniences on the part of customers. Some of these laws are weird such as

the prohibition of shipping maps, diaries and GPS systems to Argentina. It is also prohibited to ship a pair of matching shoes to South Africa, Mexico and India. Exporting dental-related products to Algeria is not allowed. Meanwhile, plastic flowers and wheelbarrows are not allowed to be shipped to Nigeria.

Cultural and political differences are the main reasons for the seemingly weird customs laws of some countries. In most cases, however, certain customs laws are perfectly rational. For instance, quarantine laws may apply to certain food products. These may also apply to live animals, plants and even people. The main purpose of quarantine is to prevent the spread of infectious diseases.

Aside from the logistical and legal challenges, cargo forwarding operations face potential losses due to civil unrest, bad weather and other natural disasters. The risks involved in the business are usually covered by insurance. The insurance coverage varies depending on the value and quantity of the items. The cost of insurance will also vary depending on the specific risks such as volatile political situation in a particular destination. Similar challenges are faced by freight forwarders in Australia.

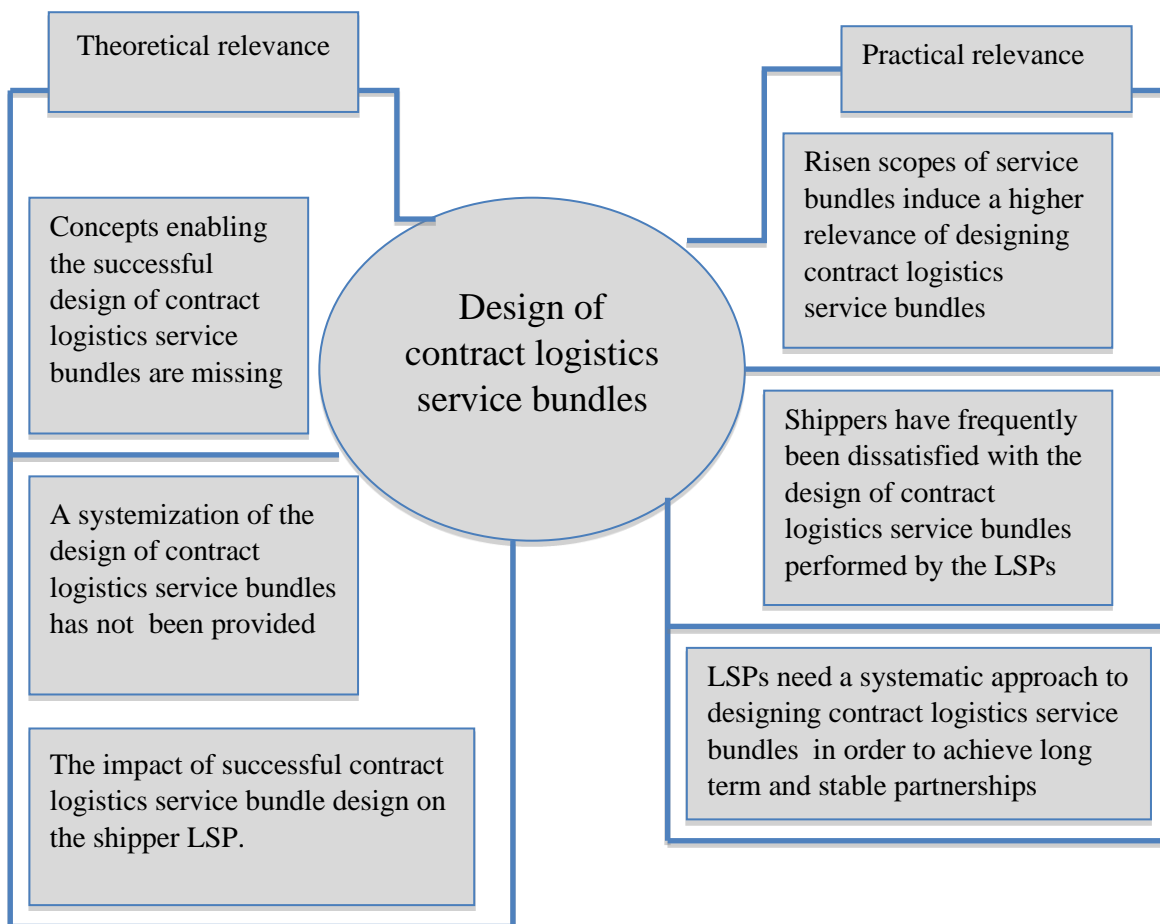


Figure 2. Design of Contract logistics

Techniques that address solution for both Freight forwarding and contract logistics:

1. Market focus and position. Due to a mixture of organic growth and strategic acquisitions, high performers not only have a strong presence in emerging markets such

as Brazil, Russia, India, China and Mexico, they also exert control over the most profitable trade lanes: Europe to Asia, for example, or North America to both South America and Asia. Moreover, by leveraging dominant positions in domestic freight (both air and road), they have managed to maintain volume growth without compromising their revenues.

2. Distinctive capabilities. According to our analysis and scorecard of industry players, three business capabilities stand out in particular.

- **Flexible business model.** The high performers know that time to market is critical in their industry—and they have the flexibility to respond with speed and agility to their customers’ need for convenience. High performers have established new ocean freight links to growth geographies such as Africa. And they have opened multiple new service links that span the global trade routes over which they dominate.

- **Deep expertise in key customer industries.** Industry knowledge is growing in importance as customers extend their supply chains in response to globalization. High performers have been leaders in developing extensive expertise in the industries they serve, going well beyond traditional transportation and warehousing solutions. Increasingly, logistics companies are strengthening their ability to collaborate and are better aligning themselves with customers’ operations, processes, industry know-how and technology.

- **Using IT to maintain 360-degree control.** The high performers have moved well beyond using IT merely as an enabler of internal process management. Instead, they leverage their proprietary customer-facing technologies to empower their customers, offering them end-to-end visibility across the entire supply chain. Important to ongoing success will be the ability to develop more “intelligent” services, more dynamic planning and increased alignment with customers’ operations and processes.

Supply chain visibility remains a top operational priority for large customers. Customers generally struggle to achieve a unified picture of their supply chains because of the legacy information systems designed to operate within a single company, not across a network of companies. Thus, the ability to share real-time information with key customers, suppliers and partners has become critical in the freight forwarding industry.

3. Performance anatomy. With freight forwarding and contract logistics, performance anatomy relates not only to overall operational excellence but also to such procurement practices as the purchase of transportation capacity and the innovative use of shared services. Because of their relentless focus on productivity improvement, the high performers are masters of operational excellence, achieving significantly higher gross profit conversion.

These companies place much greater emphasis on process automation and on finding the right balance between volume commitments and spot buying—a strategy that enables them to achieve competitive rates in the most important trade lanes. And they have been enthusiastic adopters of shared services, not just for internal processes but also to improve customer services and supply chain management.

Table 1. Respondents' answers to the question "At what level does your company decide on logistics outsourcing?"

Organization	Respondents	Percentage
One factory level	14	70
Multi factory level	6	30
Total	20	100

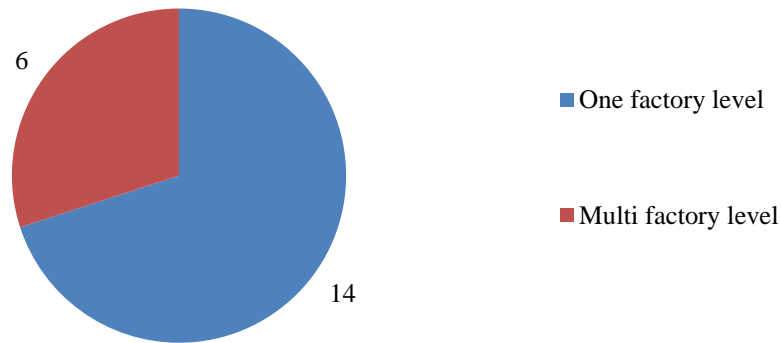


Figure 3. Respondents' answers to the question "At what level does your company decide on logistics outsourcing?"

From the above table it is inferred that 70% of respondents said that the decision of logistic outsourcing is taken at One Factory Level and 30% of respondents said that the decision of logistic outsourcing is taken at Multi Factory Level.

Table 2. Respondents' answers to the question "To what extent are you involved in logistics decision-making in your company?"

Organization	Respondents	Percentage
Highly	06	30
Moderately	10	50
Little bit	04	20
Not involved	00	00
Total	20	100

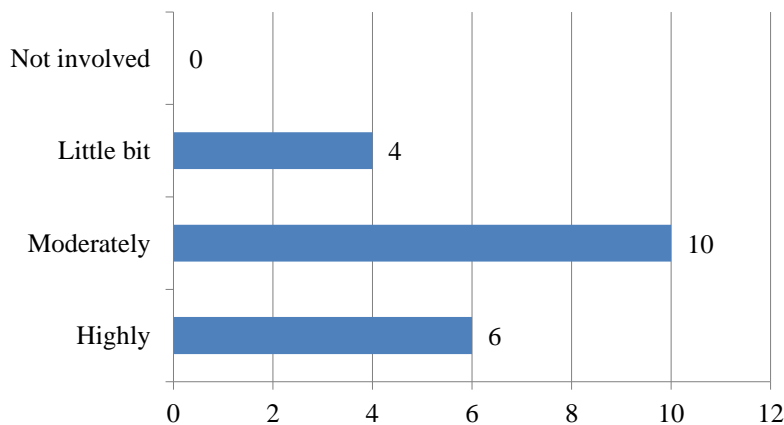


Figure 4. Respondents' answers to the question "To what extent are you involved in logistics decision-making in your company?"

From the above table it is inferred that 30% of respondents were highly involved, 50% of respondents were moderately involved and 20% of respondents were little bit involved in decision making of logistics in their company

Table 3. Respondents' answers to the question “How many product groups does your company have in India?”

Number of product groups	Respondents	Percentage
1	02	10
2	06	30
3	10	50
4	02	10
5	00	00
>5	00	00
TOTAL	20	100

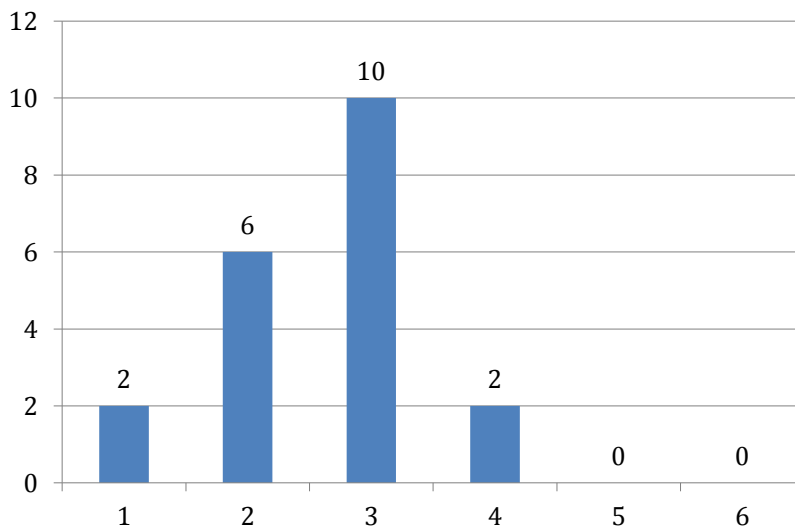


Figure 5. Respondents' answers to the question “How many product groups does your company have in India?”

From the above table it is inferred that 10% of respondents Had 1 product group, 30% of respondents Had 2 product group, 50% of respondents Had 3 product group and 10% of respondents had 4 product groups.

Table 4. Respondents' answers to the question “Do you think increase in consumption of Consumer goods will lead to decline in logistics cost?”

Organisation	respondents	percentage
Yes	16	80
No	04	20
Total	20	100

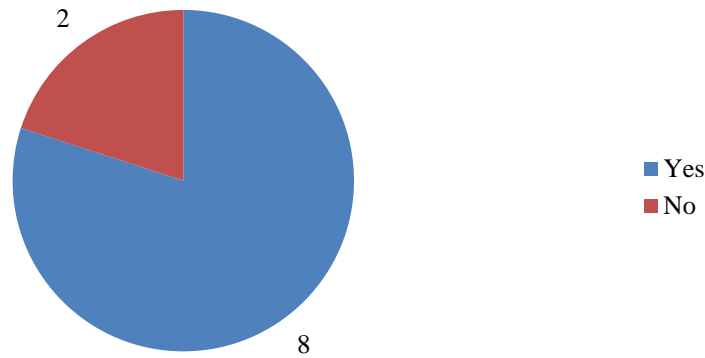


Figure 6. Respondents' answers to the question “Do you think increase in consumption of Consumer goods will lead to decline in logistics cost?”

From the above table it is inferred that 80% of respondents said yes and 20% of respondents said no when asked if increase in consumption of FMCG will lead to decline in cost.

Table 5. Respondents' answers to the question “Where do you think India will be among the Top FMCG consuming countries in the world in 2020?”

Organization	Respondents	Percentage
Top 10	02	10
Top 15	06	30
Top 20	08	40
Top 25	04	20
>30	00	00
Total	20	100

From the above table it is inferred that 10% of respondents said India will be among the Top FMCG consuming countries in the world in 2020, 30% of respondents said India will be among the Top FMCG consuming countries in the world in 2020, 40% of respondents said India will be among the Top FMCG consuming countries in the world in 2020 and 20% of respondents said India will be among the Top FMCG consuming countries in the world in 2020.

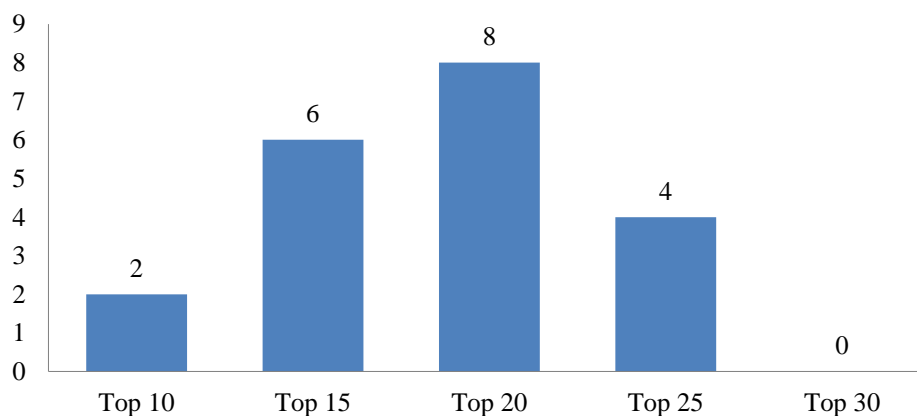


Figure 7. Respondents' answers to the question “Where do you think India will be among the Top FMCG consuming countries in the world in 2020?”

Table 6. Respondents' answers to the question “Do you think India has well established logistics support systems?”

Organisation	Respondents	Percentage
Yes	08	80
No	02	20
Total	10	100

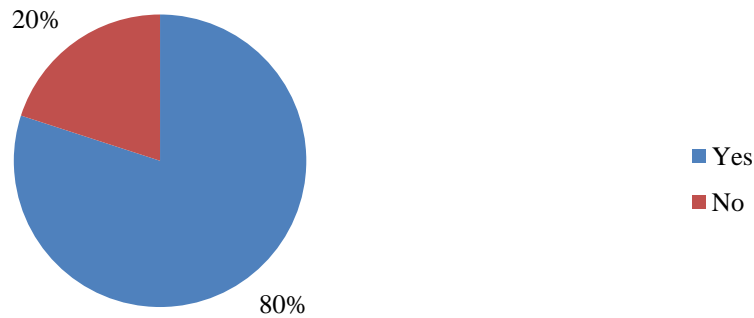


Figure 8. Respondents' answers to the question “Do you think India has well established logistics support systems?”

From the above table it is inferred that 80% of respondents said yes and 20% of respondents said no when asked if India has well established logistics system.

Table 7. Observed frequency: Involvement in decision making

Position of the Respondents	Highly	Moderately	Little bit	Not involved	Total
Logistic Manager	4	6	0	0	10
Financial Manager	0	2	2	0	4
Production Manager	0	0	2	0	2
Director	2	2	0	0	4
Total	6	10	4	0	20

Table 8. Expected frequency: Involvement in decision making

Position of the Respondents	Highly	Moderately	Little bit	Not involved	Total
Logistic Manager	3	5	2	0	10
Financial Manager	1.2	2	0.8	0	4
Production Manager	0.6	1	0.4	0	2
Director	1.2	2	0.8	0	4
Total	6	10	4	0	20

Table 9. Calculation of Chi – Square Value

O	E	(O – E) ²	$\frac{(O - E)^2}{E}$
4	3	1	0.33
0	1.2	1.44	1.20
0	0.6	0.36	0.60
2	1.2	0.64	0.53
6	5	1	0.20
2	2	0	0
0	1	1	1
2	2	0	0
0	2	4	2
2	0.8	1.44	1.8
2	0.4	2.56	6.4
0	0.8	0.64	0.8
0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	0
Total			14.86

$$\begin{aligned}
 \text{Degree of Freedom} &= (r - 1) (C - 1) \\
 &= (4 - 1) (4 - 1) \\
 &= (3) (3) \\
 &= 9
 \end{aligned}$$

Table value at 5% level of significance with degree of freedom of 9 $\chi^2 = 16.92$

Result:

The calculated value X^2 value (14.86) is less than the table value (16.92)

Calculated Value < Tabulated Value

$$14.86 < 16.92$$

Discussion. The main debatable issues studied in the article were:

- Distance between the respective FMCG manufacturing unit and nearest port.
- Efficiency of Container dedicated ports in south east Asian.
- Flow of supply chain operations.
- Functions of freight forwarding
- Location of Manufacturing units.

Conclusion. According to the results of the conducted research, it was established:

- FMCG has been growing tremendously over a period of time and has proven that the demand for its commodities will never decline;
- Peoples requirements and demand for FMCG has influenced logistics and supply chain.

The article presents suggestions, namely:

- Improvement in road quality would speed up the process of transport;
- Increase in consolidation type of services would lead to decrease in cost so that the products can be available at low and economic cost.

The main recommendations based on the results of the research are:

- Constant improvements in port facilities in South East Asia are recommended;
- Understanding of the process flow of supply chain operations is required;
- Logistics growth must be at the same pace as development in FMCG.

Author contributions. The authors contributed equally.

Disclosure statement. The authors do not have any conflict of interest.

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