

THE POWER OF CUSTOMER EXPERIENCE IN FREIGHT FORWARDING

UNCOVERING THE SIGNIFICANT IMPACT OF TECHNOLOGY AND
CUSTOMER EXPERIENCE IN THE FREIGHT FORWARDING INDUSTRY.



A WHITE PAPER IN PARTNERSHIP WITH

LOGIXBOARD ×  **FREIGHTWAVES**

TABLE OF CONTENTS

Executive Summary3

Survey Overview3

What This Means for the FF Industry8

Conclusion..... 11

About Logixboard..... 12

Appendix — Survey Questions and Results..... 13

LIST OF FIGURES

Figure 1: How important is online shipment visibility when working with a Freight Forwarder? 4

Figure 2: Shippers' willingness to pay higher rates to work with technologically savvy freight forwarders.....5

Figure 3: Shippers: Has inadequate technology ever caused you to transition or fire a freight forwarder?..... 5

Figure 4: Shippers most important priorities when working with a freight forwarder 7

Figure 5: What is the biggest benefit of having online shipment visibility? 7

Figure 6: Freight Forwarding is an Extremely Fragmented Industry with the Top Four Players Controlling Less Than 10% Market Share..... 9

Figure 7: U.S. Customs Import Shipments Soared to a Multiyear High in 2020..... 10

Figure 8: Trans-Pacific Ocean Shipping Rates Also Soared to Multi-Year High in 2020..... 10

EXECUTIVE SUMMARY

Technology and digitization are creating a sea of change in the freight forwarding (FF) industry. Freight forwarders (FFs) that do not adapt will lose market share and become obsolete, while those that innovate and employ technology will emerge as share takers and winners in the next decade.

To test the validity of this hypothesis, FreightWaves surveyed 100 shippers that work with freight forwarding companies to understand what matters most to them when it comes to choosing and working with freight forwarders and FF technologies. **For the purposes of this report, the term "shippers" refers to the companies that are contracting freight forwarders to ship goods, i.e. the freight forwarder's customer.**

What we found was this: A critical part of winning new customers and keeping existing customers happy is about adopting new customer experience technologies—technologies specifically designed to improve transparency and visibility.

With this finding came another profound insight—technology opens up pricing power for FFs.

The other primary takeaway from our survey and research is this—outsourcing digitization, and specifically visibility software—can help smaller FFs compete on a much more level playing field with large FFs and their much larger marketing and capital spending budgets.

SURVEY OVERVIEW

We surveyed 100 shippers that regularly work with FFs to ascertain their needs and preferences, specifically when it comes to digitization and technology. We asked shippers 10 questions (see Appendix near the end of this document for specific questions) to gain a better understanding — the feedback was loud and clear.

Not only do shippers care about digitization and technology, they essentially view them as table stakes for working with FFs, have fired their old FFs for not keeping up technologically and, perhaps most importantly, shippers are willing to pay significantly more for technological efficiencies and prowess.

To briefly summarize what we sought to understand, we asked shippers for their thoughts on the following topics: what technology/digitization capabilities they value when working with FFs; their most important priorities as a customer (e.g., price, customer service, technology, etc.); the benefits of working with technologically savvy FFs; and how much more (if any) they were willing to pay for cutting-edge technology and whether technology matters in their selection and retention of FFs.

As mentioned previously, it is not just digitization that shippers care about but specifically shipment tracking and visibility software that wins the day.

Outlined below are the three most important takeaways from our survey.

TAKEAWAY 1

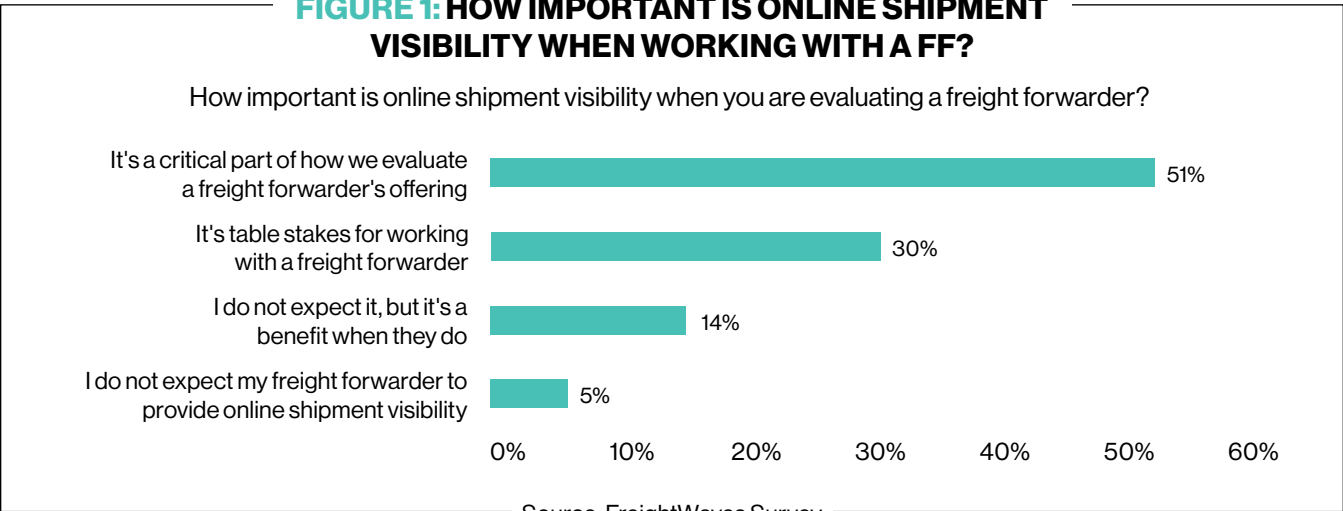
DIGITAL TECHNOLOGY—AND SHIPMENT VISIBILITY IN PARTICULAR—IS GOING TO BE THE MOST CRITICAL ASPECT OF GROWING A HEALTHY FF BUSINESS OVER THE NEXT FIVE YEARS.

We consider the first takeaway to be our most important finding. Shipment visibility is a vital consideration for shippers when it comes to working with a FF because visibility helps win new business, increase margins and reduce churn.

In fact, in response to a survey question about whether shippers thought they would increasingly work with FFs offering better technological capabilities over the next five years, 70% of respondents agreed.

In regard to how FFs employing visibility software matters, 47% of shippers say it’s a critical part of how they evaluate a freight forwarder’s offering.

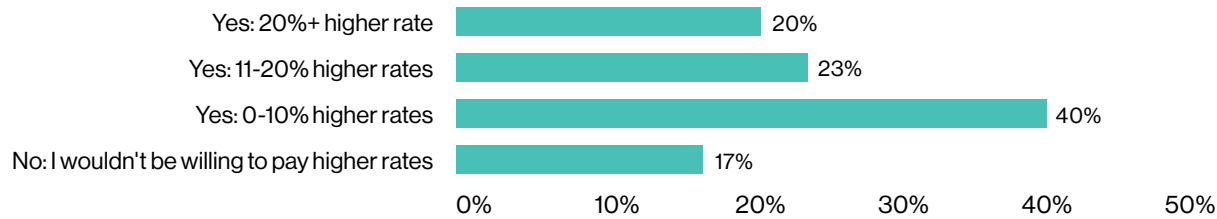
FIGURE 1: HOW IMPORTANT IS ONLINE SHIPMENT VISIBILITY WHEN WORKING WITH A FF?



Visibility software helps FFs increase their revenue and margins. For example, 80%+ of shippers said they would be willing to pay higher rates to work with a FF that provides better technology, visibility and control. Astoundingly, 20% said they would be willing to pay over 20% higher rates. For a hypercompetitive, low-margin industry like freight forwarding, we view this finding as a game-changer.

FIGURE 2: SHIPPERS' WILLINGNESS TO PAY HIGHER RATES TO WORK WITH TECHNOLOGICALLY SAVVY FREIGHT FORWARDERS

Would you be willing to pay higher rates to work with a freight forwarder that provides better technology, visibility and control into your supply chain?

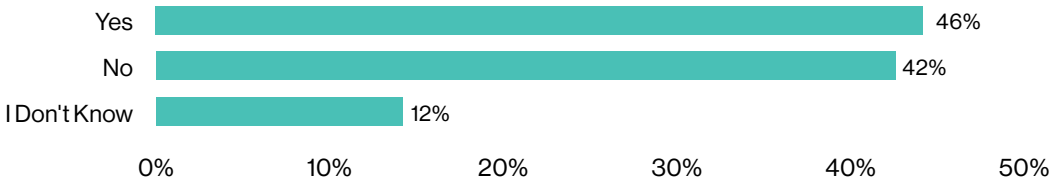


Source: FreightWaves Survey

Finally, working with a FF that employs visibility reduces customer churn; 45% of shippers said they had stopped working with a FF because another one offered superior technology. For any FF currently working with inadequate technology, we think this sends a clear message that the time to upgrade is now.

FIGURE 3: SHIPPERS: HAS INADEQUATE TECHNOLOGY EVER CAUSED YOU TO TRANSITION OR FIRE A FREIGHT FORWARDER?

Have you ever stopped working with a freight forwarder because another freight forwarder offered better technology?



Source: FreightWaves Survey

We would emphasize this final finding by noting that switching costs for shippers are already very low. So not only can technology help FFs win business from competitors and reduce the chances of a shipper leaving you because of inferior technology, but by integrating technology and systems into shippers' workflows, the result is an increase in shipper customer stickiness and reduced customer churn.

TAKEAWAY 2

CUSTOMER SERVICE IS THE MOST IMPORTANT CHARACTERISTIC OF FF BUT IS EVOLVING TOWARD DIGITIZATION.

FF is a service industry. It is a very relational business and shippers like individualized attention. A big part of good customer service is communication. Traditionally, that meant someone always picking up the phone and quickly responding to emails and text messages

This is evolving now, and while shippers still want the individualized attention regarding how their goods get from point A to B, shippers expect the communication and administration side of things to be digitized. In contrast, visibility software automatically shows and alerts shippers where their shipments are and when they are scheduled to be delivered, as well as notifying them of any exceptions.

To demonstrate this fact, shippers ranked cutting-edge technology and digital tools as the second most important characteristics of working with a FF—even above price.

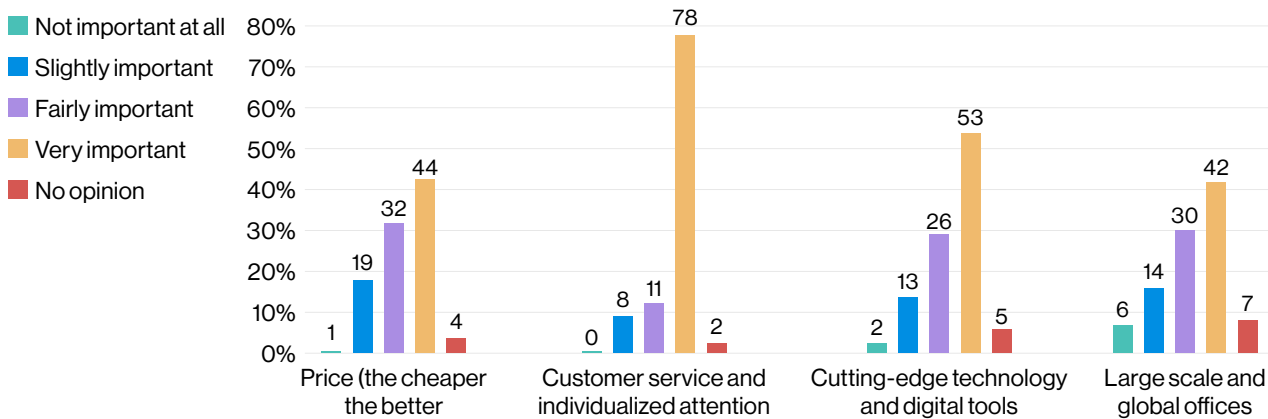
The results of this question demonstrate that in terms of shipper preferences for working with freight forwarders, it is not just a price war and race to the bottom. In fact, price tied for last with “large scale and global offices” when it came to the least important characteristics of working with a particular FF.

Perhaps most importantly, 45% of shippers said that they have stopped working with a freight forwarder in the past due to inadequate technology. Additionally, we suspect this number may only increase over time, highlighting the critical importance of a sound digital strategy for FFs.

The last item we would note: When it comes to the customer service and individualized attention provided by FFs (or any business for that matter), talk is cheap. Excellent customer service is an easy sell but what is most important is that a FF can back it up once you are actually working with it.

FIGURE 4: SHIPPERS' MOST IMPORTANT PRIORITIES WHEN WORKING WITH A FREIGHT FORWARDER

Please score each of the following characteristics on importance when working with a freight forwarder:



Source: FreightWaves Survey

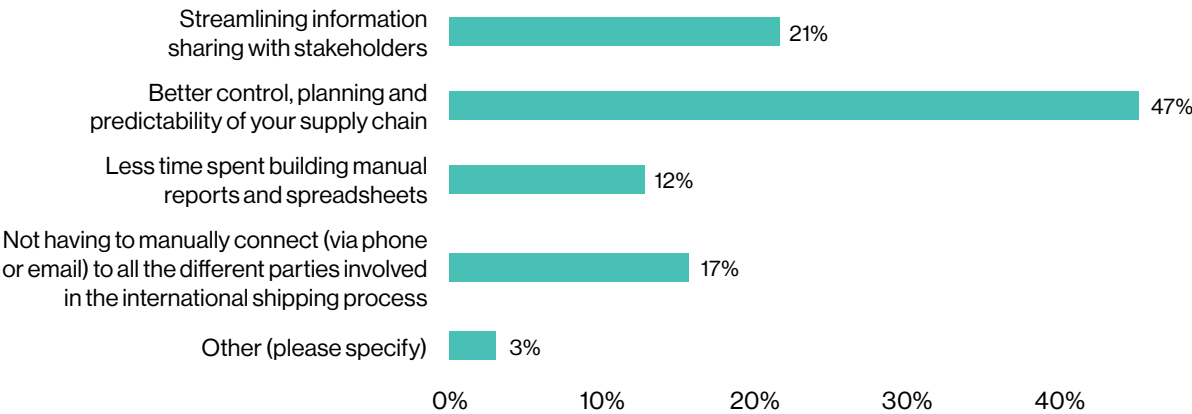
TAKEAWAY 3

SHIPMENT VISIBILITY IS CONSIDERED THE MOST IMPORTANT PART OF DIGITIZATION.

When analyzing the weighted score when we asked shippers to rank the most important aspects of digitization and technology, shipment visibility was ranked the No. 1 most important (followed closely by digital quotes). This supports the thesis above — that much of the administration and communication with FFs is related to generating quotes and getting updates on shipments. This process should be digitized, according to shippers.

FIGURE 5: WHAT IS THE BIGGEST BENEFIT OF HAVING ONLINE SHIPMENT VISIBILITY?

What is the biggest benefit of having an online shipment visibility portal provided by your freight forwarders?



Source: FreightWaves Survey

According to shippers, visibility is paramount because it allows for better control, planning and predictability in their supply chains. Visibility also helps to streamline information sharing with stakeholders. The benefits of improved information sharing can be both external (like shippers, vendors and customers) and internal (between employees and executives). In short, visibility saves time and needless hassle by removing the need for FFs to provide updates.

WHAT THIS MEANS FOR THE FF INDUSTRY

Freight forwarding is an extremely fragmented industry, with the top four freight forwarders historically controlling less than 10% of total industry volume, according to IBISWorld, and the remaining 90% controlled by other large FFs and small and midsize FFs. IBISWorld goes on to say, "Despite the presence of large international corporations, the [FF] industry is dominated by small and midsize enterprises, and more than half of all employer establishments employ less than four people." The balance and split of overall industry market share has been fairly stable over the past 10 years.

Moving forward, however, we believe that small and midsize FFs will lose material market share to larger and more technologically savvy FFs unless the smaller ones are better able to compete on a level technological playing field with the big boys.

As technology was rapidly deployed in surface-based transportation freight brokerage over the last five to 10 years, traditional voice-based brokers have donated huge amounts of market share to the larger players and venture capital-backed digital freight brokers (DFBs). The top four freight brokerages in the U.S. now control 37% of the total market share in the U.S., according to Susquehanna's, Armstrong & Associates' and Goldman Sachs' data, representing huge concentration relative to other highly fragmented transportation segments like truckload. If the global FF industry was to see the top four players move to 37% market share (equivalent to surface freight brokerage) from 10%, that would represent about \$305 billion in revenue transferred from small and midsize FFs to large FFs (see Figure 1). The latter market share loss figure is derived from Boston Consulting Group's (BCG) estimate for a total size of the global FF industry and contract logistics market of approximately \$895 billion in 2014 (with a conservatively assumed 4% annual linear compound annual growth rate).

A similar outcome may await small and midsize FFs over the next decade unless they implement their own (or third-party) software for digital quotes, visibility, document digitization and storing, and analytics and reporting. We have high conviction in this prognosis, because a large number of shippers that work with freight forwarding companies conveyed this message with us directly in our survey. In fact, not only are shippers willing to pay much more for the services of a technologically savvy freight forwarder, they consider it table stakes for working with one and have terminated previous relationships with FFs for a lack of technology.

FIGURE 6: FREIGHT FORWARDING IS AN EXTREMELY FRAGMENTED INDUSTRY WITH THE TOP FOUR PLAYERS CONTROLLING LESS THAN 10% MARKET SHARE

Extreme Fragmentation		Concentrated	
Top Four Freight Forwarders (FFs)	10%	Top 4 Freight Brokers (FBs)	37%
Other FFs	90%	Other FBs	63%
Total		Total	100%

Source: FreightWaves' calculations, Armstrong & Associates, Susquehanna, Goldman Sachs, IBISWorld

In the old days, the transportation industry was defined by a lack of technology that made it ripe for disruption. With the entrance of digital freight brokerages and billions of dollars in freight-tech investments, the truckload space began to revolutionize and modernize. In our view, transportation, despite being a gargantuan and growing industry, was at least 10 years behind many other sectors of the economy in terms of the pace of digitization. Shipper customers, brokers and asset-based transportation providers conducted business manually over the phone, via emails and mistake-laden, massive spreadsheets instead of software. The result of this digitization in surface transportations has been a massive reshuffling of the winners and losers.

A similar technological revolution is on the precipice of occurring in the FF industry. One prospect that could catalyze—and that is already disrupting the status quo in FF—is the entrance of the digital upstart Flexport, as well as the top FFs having more scale to invest in technology and automation. In fact, we believe that market share could begin to tilt toward the larger FFs should small to midsize FFs not invest in technology to keep up. This is why we felt that conducting this survey was timely and informative.

2020 was characterized by a highly unusual recession during which demand for transportation and FF exploded, emphasizing the importance of working with a great FF employing cutting-edge technology.

In a typical recession, sea and air volumes will contract more severely than GDP due to customer destocking and a slowdown in orders. The COVID-19-induced recession of 2020 was far different, at least for seaborne volumes as there was a step function shift higher in demand for goods relative to services by both American and global consumers. This tight capacity environment, bottlenecks and skyrocketing rates for trans-Pacific freight movements highlights the need for working with a freight forwarder, and particularly a FF with state-of-the-art technology.

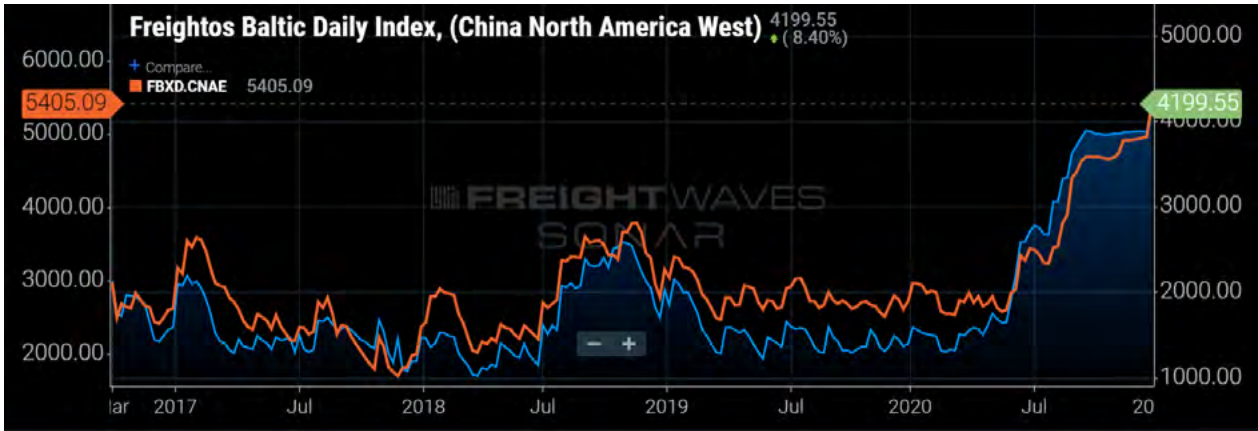
In 2020, both ocean volumes (as measured by TEUs and imports) and trans-Pacific ocean shipping rates exploded to multiyear highs, emphasizing the importance of FFs.

FIGURE 7: U.S. CUSTOMS IMPORT SHIPMENTS SOARED TO A MULTIYEAR HIGH IN 2020



SONAR: CSTM.USA

FIGURE 8: TRANS-PACIFIC OCEAN SHIPPING RATES ALSO SOARED TO MULTIYEAR HIGH IN 2020



SONAR: FBXD.CNAW, FBXD.CNAE

Across the market, the top four forwarders only control about 10% of the market, with this concentration having remained fairly stable over the last 10 years.

Make no mistake, however, the large freight forwarders have a distinct scale advantage in terms of technological savinness and access to capital for deployment.

FF is a very low-margin industry — gross margins and operating margins for even the leading FFs are very low relative to most industries, approximately 23% and 5%, respectively, on average over the past decade. With margins this low and a business that is highly commoditized, pricing power is a rarity but, if achieved, could prove a major boon to profitability for FFs. The good news is that superior technology opens up the door to pricing power as our survey showed.

A New Standard is Emerging in Working with FFs

There is a new standard expectation when it comes to digitization, transparency and customer experience in freight forwarding. We have seen this happen over the last several years in countless other industries such as e-commerce, cloud computing and noncash/digital payments.

Today, all e-commerce customers expect rapid and free shipping due to the continued emergence and dominance of Amazon Prime. All other competitors had to invest billions of dollars in logistics and transportation networks to keep up with the new standards.

Finally, in digital payments, traditional card networks like Visa and Mastercard have taken a great deal of market share from traditional cash, while newer “fintech” (financial technology) providers like PayPal, Square, Stripe and Shopify have enabled fast and free digital payments.

FF is poised for a similar pace of digitization over the coming years in which the early adopters of new technology will emerge as winners and share takers.

CONCLUSION

For FFs, an investment in visibility software could potentially pay for itself, provide an excellent return on investment and potentially insulate the company in a low-margin, highly competitive industry. Furthermore, while FF is primarily a commodity business, forward-minded FFs that employ visibility software can create and help “build a moat” or barrier to entry around their businesses.

Visibility software “arms the rebels,” similar to how Shopify, Square and Stripe do with small and midsize businesses online, allowing them to compete on a level playing field with well-capitalized giants like Amazon (or Flexport in this case). Despite not having a marketing and capital budget in the tens of millions of dollars, visibility software can enable small and midsize FFs to compete on a level playing field with the highly capitalized new digital entrants that are taking market share and allow shippers to focus on their core business operations.

Lastly, visibility software streamlines operations and aids FFs in winning new customers and serving and keeping existing customers happy. When it comes to digitizing a FF business, there are essentially four options a forwarder can choose to evaluate: build the technology in-house, outsource the building of the technology to a consultant, use existing enterprise resource planning (ERP) software or finally hire a third-party software vendor.



A NOTE FROM LOGIXBOARD CEO JULIAN ALVAREZ

The results of this report really hit home for me, as they help validate the mission my co-founder Juan and I have been on for years.

After working in the freight forwarding industry, we experienced firsthand how critical it is to provide a world-class customer experience. At the same time, we also noticed how some of the fastest-growing forwarding companies were investing millions into digitization.

These two realizations inspired us to start Logixboard. We wanted to provide a frictionless way for any freight forwarder to deliver unparalleled customer experience by combining their logistics expertise and personalized service with our digital platform.

We've been able to help companies across the world ignite revenue growth by empowering them with a modern and powerful customer engagement platform.

If you have questions about Logixboard, digitization, or freight forwarding, I'd love to connect. Email me at julian@logixboard.com.

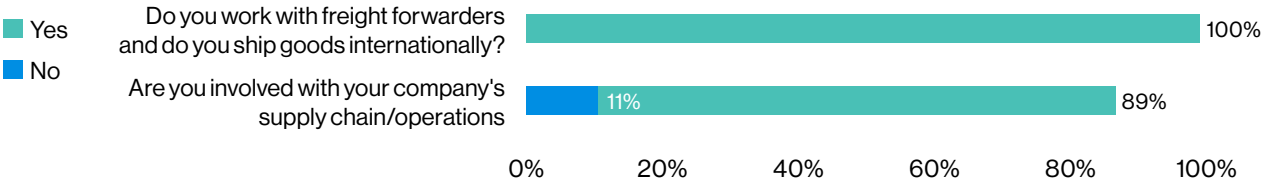
Ready to level up your customer experience?

Logixboard is a white-labeled platform for freight forwarders to modernize their customer experience and supercharge revenue growth with world-class visibility tools.

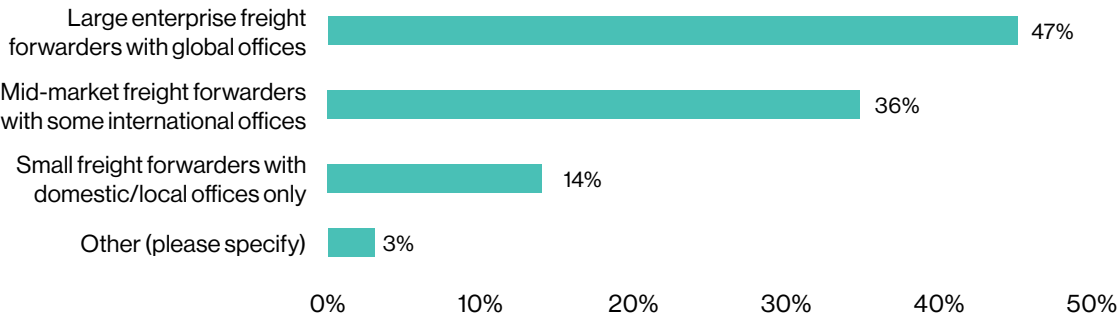
Email sales@logixboard.com or visit www.logixboard.com to learn more.

APPENDIX: SURVEY QUESTIONS & RESULTS

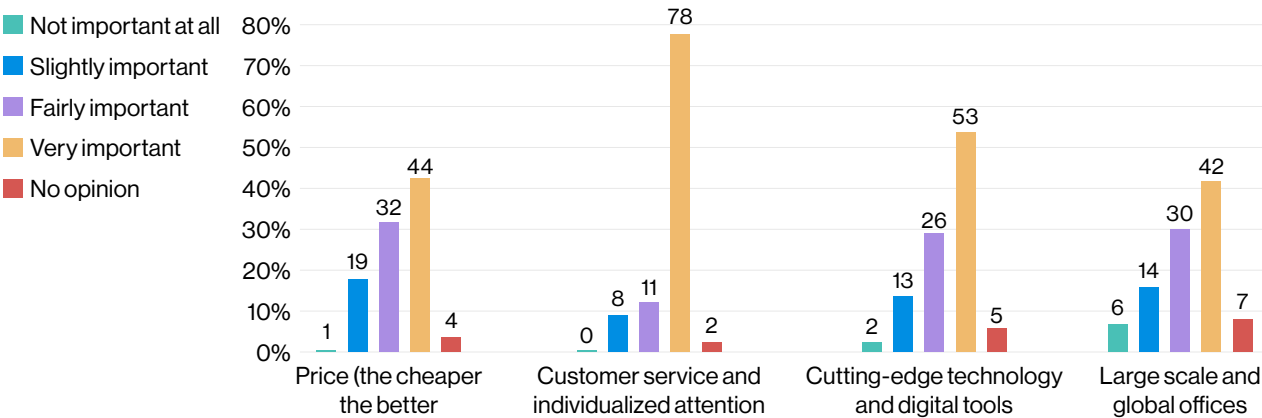
QUESTION 1: PLEASE RESPOND YES OR NO TO THE FOLLOWING:



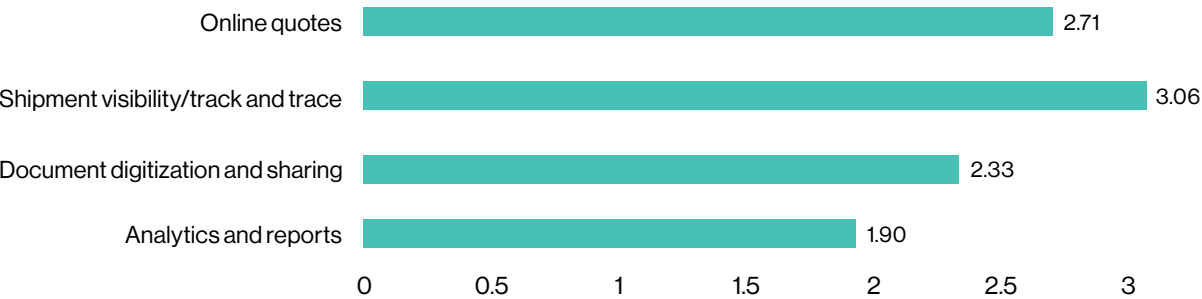
QUESTION 2: WHAT TYPE OF FREIGHT FORWARDER DO YOU WORK WITH MOST OFTEN?



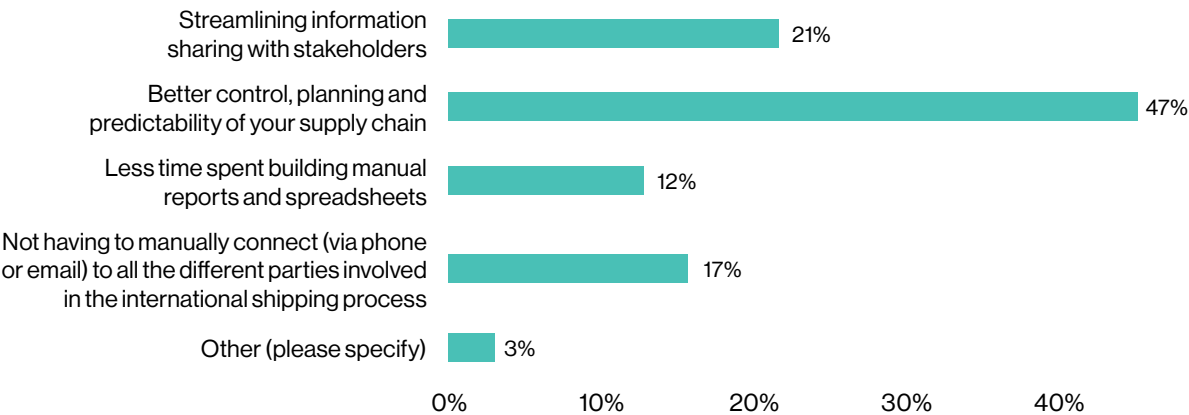
QUESTION 3: PLEASE SCORE EACH OF THE FOLLOWING CHARACTERISTICS ON IMPORTANCE WHEN WORKING WITH A FREIGHT FORWARDER.



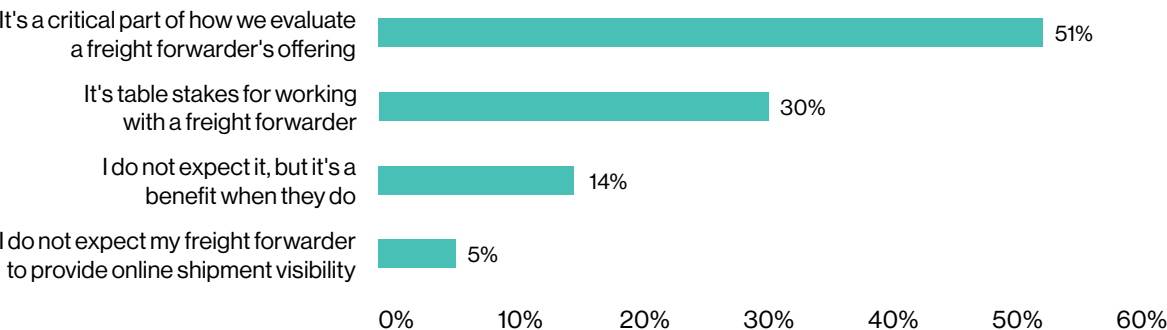
QUESTION 4: WHAT TECHNOLOGY/DIGITIZATION CAPABILITIES ARE MOST IMPORTANT TO YOU WHEN IT COMES TO WORKING WITH A FREIGHT FOWRADER? PLEASE RANK THE FOLLOWING OPTIONS:



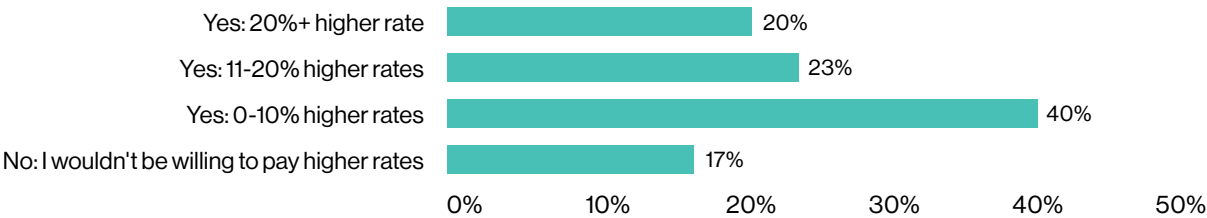
QUESTION 5: WHAT IS THE BIGGEST BENEFIT OF HAVING AN ONLINE SHIPMENT VISIBILITY PORTAL PROVIDED BY YOUR FREIGHT FORWARDERS?



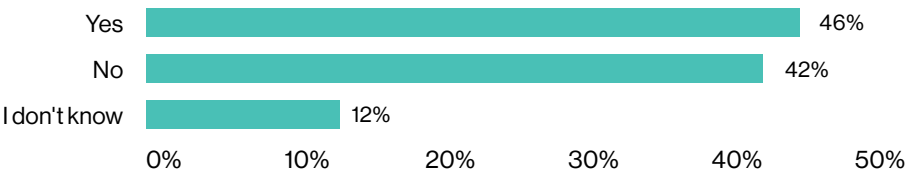
QUESTION 6: HOW IMPORTANT IS ONLINE SHIPMENT VISIBILITY WHEN YOU ARE EVALUATING A FREIGHT FORWARDER?



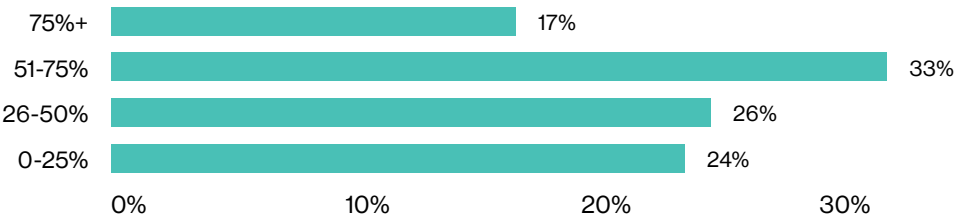
QUESTION 7: WOULD YOU BE WILLING TO PAY HIGHER RATES TO WORK WITH A FREIGHT FORWARDER THAT PROVIDES BETTER TECHNOLOGY, VISIBILITY AND CONTROL INTO YOUR SUPPLY CHAIN?



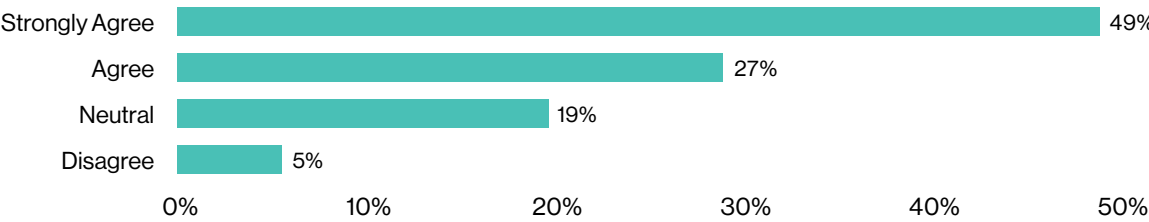
QUESTION 8: HAVE YOU EVER STOPPED WORKING WITH A FREIGHT FORWARDER BECAUSE ANOTHER FREIGHT FORWARDER OFFERED BETTER TECHNOLOGY?



QUESTION 9: WHAT % OF THE FREIGHT FORWARDERS THAT YOU WORK WITH TODAY PROVIDE DIGITAL TOOLS THAT ARE UP TO YOUR STANDARDS?



QUESTION 10: AGREE/DISAGREE: IN THE NEXT FIVE YEARS, THE MAJORITY OF THE FREIGHT FORWARDERS YOU WORK WITH WILL OFFER DIGITAL TECHNOLOGIES TO PROVIDE BETTER VISIBILITY, ANALYTICS, WORKFLOWS, ETC.



QUESTION 11 - OPTIONAL DEMOGRAPHICS: GENDER



THE POWER OF CUSTOMER EXPERIENCE IN
FREIGHT FORWARDING

LOGIXBOARD