

TURNING TRENDS INTO OPPORTUNITIES

A Success Story on Organizational Excellence
in Freight Forwarding



“...PUSH OPERATIONAL
EFFICIENCY, INCREASE SALES
POWER, OPTIMIZE DECISION-
MAKING AND CONSEQUENTLY
ADAPT ORGANIZATIONAL
SETUPS”

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MANAGEMENT SUMMARY

Major trends impact the freight forwarding market, challenge traditional business models but offer great opportunities for sales and operational excellence. Increased price volatility, market transparency, professionalized customers and technology-driven business models require freight forwarders to push operational efficiency, increase sales power, optimize decision-making and consequently adapt organizational setups.

Our success story highlights the advantages and disadvantages of three common organizational setups in the freight forwarding industry: Product-lead organizations, geography-driven setups and matrix organizational structures. While there is no one-size-fits-all approach, our success story clearly shows how crucial it is for organizational setups to support a company's business model and sales strategy. By deep-diving into concrete client examples, such as the Order and Booking Desk (OBD), this success story proves how optimized organizational setups can reduce small customer complexity, increase operational efficiency and foster the sales power of freight forwarders.



INTRODUCTION – SEVEN TRENDS FOR THE FUTURE OF FREIGHT FORWARDING

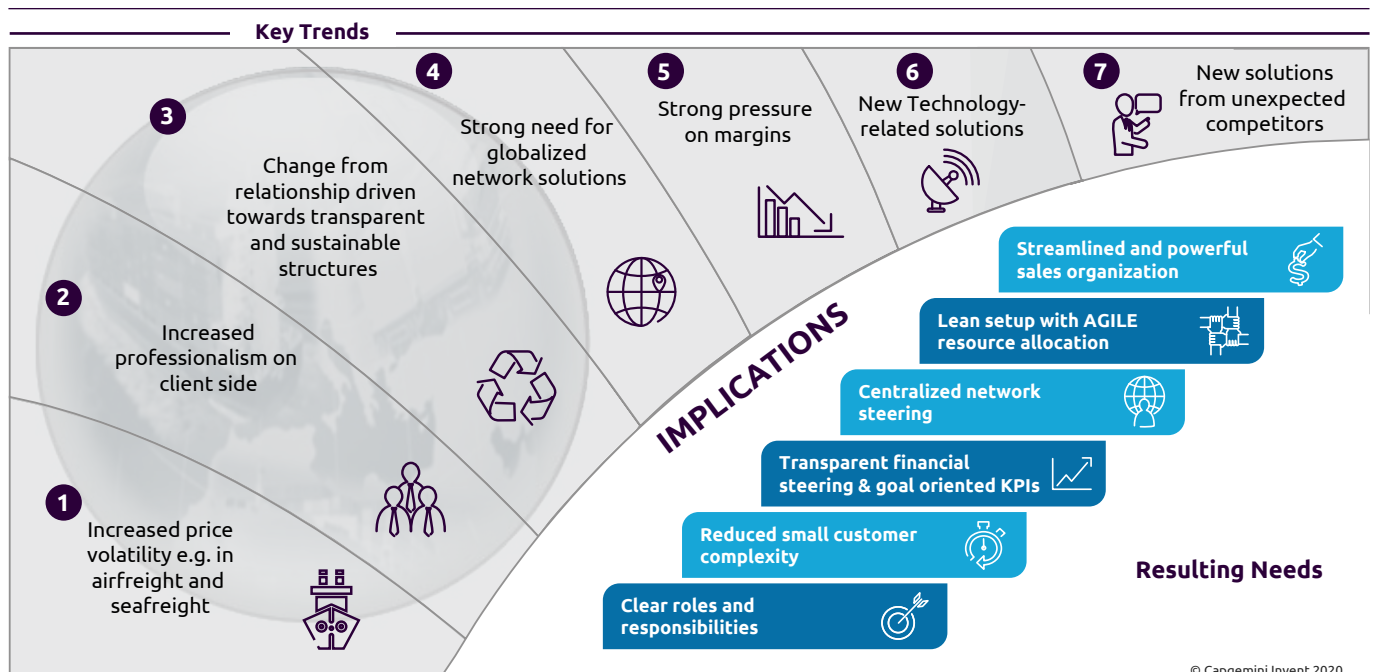
Current trends in the freight forwarding market provide a clear imperative for freight forwarders to improve operational efficiency and sales power. In addition to up-to-date system landscapes, this requires optimized processes and streamlined organizational setups leveraging global delivery networks. Disruptive, technology-driven market changes force the industry to increase agility, adapt organizational structures and update business models. New technology-driven competitors challenge the entire value chain of freight forwarding. In fact, digitalization and new technology solutions threaten to fundamentally disrupt common freight forwarding business models and, if ignored, potentially put freight forwarding businesses at risk. In brief, today's freight forwarding industry is facing a stimulus for technological innovation and organizational transformation, which creates an urgent need for change but bears great chances for success. The following chapters highlight general challenges and resulting implications for the organizational setup of freight forwarders in the 21st century. **(1) Extreme price volatility, market transparency and (2) professionalism on the client side require increased quotation transparency as well as quick, centralized decision-making in procurement and pricing.** While the freight forwarding industry traditionally experiences price fluctuations due to changes in world trade volumes and directions, the market is increasingly characterized by extreme price volatility for Air- and Seafreight. In April 2016, the China Containerized Freight Index dropped to a record-low of 636.14/TEU, a drop of more than 50 % compared to February 2015.

The bankruptcy of Hanjin Shipping Company, one of the biggest players in the market, in August 2016 has shown the vulnerability of the shipping industry to short-term market

fluctuations and volatility. Extreme price volatility goes hand in hand with increased market transparency and professionalism of customers in recent years. Price data is ready at hand for market participants and many customers professionalized their logistics procurement through upgraded systems and targeted recruitment. Clients and purchase departments, formerly relationship driven, demand **(3) more transparent price structures.** The ability to share real-time information with clients, suppliers and partners and further integrate the supply and value chains along this eco-system has become mission critical for the freight forwarding industry.

Globalized customers with integrated value chains increasingly ask for fast, cost-efficient (4) global network solutions, which requires freight forwarders to strengthen global network integration and steering. In addition, the demand for global, integrated and reduced delivery time solutions continues to increase intensely. To grasp the increased trade activities from and with emerging countries efficiently and to deal with **(5) the pressure of transport margins** and customer value-add services, freight forwarders face the need for globalized network solutions. This only works by evolving global networks with large platforms and hubs at national, regional and global levels. Global freight forwarders currently act as independent and "loose network of local entrepreneur" rather than leverage their global reach over all markets and segments. With a globalized network, freight forwarders fight the challenges of rate volatility and pressure of customer demand by taking advantage of more dynamic approaches to pick-up and delivery of goods. Customers need to be confident that the locally available service level is replicated around the world.

Figure 1: Key trends in the industry and resulting implications for freight forwarders



(6) Technology driven solutions from (7) unexpected competitors challenge the traditional business models in freight forwarding.

More and more technological disrupters enter the market who present themselves as new solutions, posing unexpected competition within the freight forward industry (e.g. start-ups like Flexport, UShip, Uberfreight or Freighthub). Their key advantage is the capability of connecting customers directly to carriers in a fast and convenient manner while taking care of customs, tariffs and further on-demand support services. They have been successful in offering digital answers to formerly inconvenient and inefficient processes in the shipping industry by using and analyzing a high quantity of data. For instance, Flexport, the first international freight forwarder and direct shipments customs brokerage, offers attractive freight forwarding and customs brokerage solutions within an online dashboard. Digital disrupters such as logistics e-commerce platforms push freight forwarders to digital solutions in each value chain step, from acquiring customers to increasing operational efficiency.

Resulting implications for freight forwarders' target operating models

To compensate for declining margins, remove inefficiencies and drive operational productivity, freight forwarders need to reduce small customer complexity. One of the most critical factors within the freight forwarding industry is cost reduction. Today, many processes for capacity management, booking, pricing, billing, and customer relationship management still entail labor-intensive paperwork. Combining standardized, scalable and appealing forwarding solutions for small customers with streamlined internal business processes is essential to avoid empty shipments and operational inefficiencies. Besides system solutions, the key to efficiency and success is to effectively manage an entire business process transformation and conversion of this solution with regards to organizational structures and processes.

To benefit from global freight networks and hub structures, it is vital to establish central network steering processes and governance. The key to future profitability is a globally oriented, intelligent capacity planning and

collaboration with different network partners. Ensuring this cooperation can be difficult when overall profit sharing is involved. A corporate governance P&L is crucial to offer the best solutions for clients and the entire corporation.

To effectively implement targeted sales strategies, freight forwarders need a streamlined and powerful sales organisation. Clear account allocation rules, business development and sales responsibilities as well as clarified functional leadership roles are key for the effective trickle-down of a centrally defined sales strategy. This entails the approach to define the sales management of global accounts (e.g. by corporate divisions), medium clients by local sales or business units and automated sales solutions for small clients. A long-term goal should be to develop more global key accounts and automate sales processes for small customers.

To cope with low margins and high volatility, freight forwarders need a flexible, customer focused and lean organizational setup with agile resource allocation. Rapid and transparent decision-making is vital for enhancing the necessary agility for dynamic capacity delivery planning and for fast reaction to market changes.

To reduce day-to-day conflicts, e.g. unclear decision responsibility or overlapping customer portfolios, and enable subsidiary decision-making, it is inevitable to define clear roles and responsibilities. Overlapping task distributions and unclear responsibilities in operations, customer service and sales cause confusion, conflict, dual capacities and ultimately lead to operational inefficiency.

To handle high pressures on margins and attain competitiveness through an effective and cost-efficient decision-making, it is decisive to establish transparent financial steering and goal-oriented KPIs. In the freight forwarding industry it is more vital than ever not to base decisions on gut feeling and relationships but instead to ensure a common understanding of what should drive commercial decision-making helping to align daily operations with overarching business strategies. However, this can only be achieved by increased calculation transparency, e.g. overview of customer margins across all products.

¹ Shanghai Shipping Exchange - China Containerized Freight Index: <http://en.sse.net.cn/indices/ccfinew.jsp> (24.05.2017)

“One of the most critical factors within freight forwarding is operational efficiency”

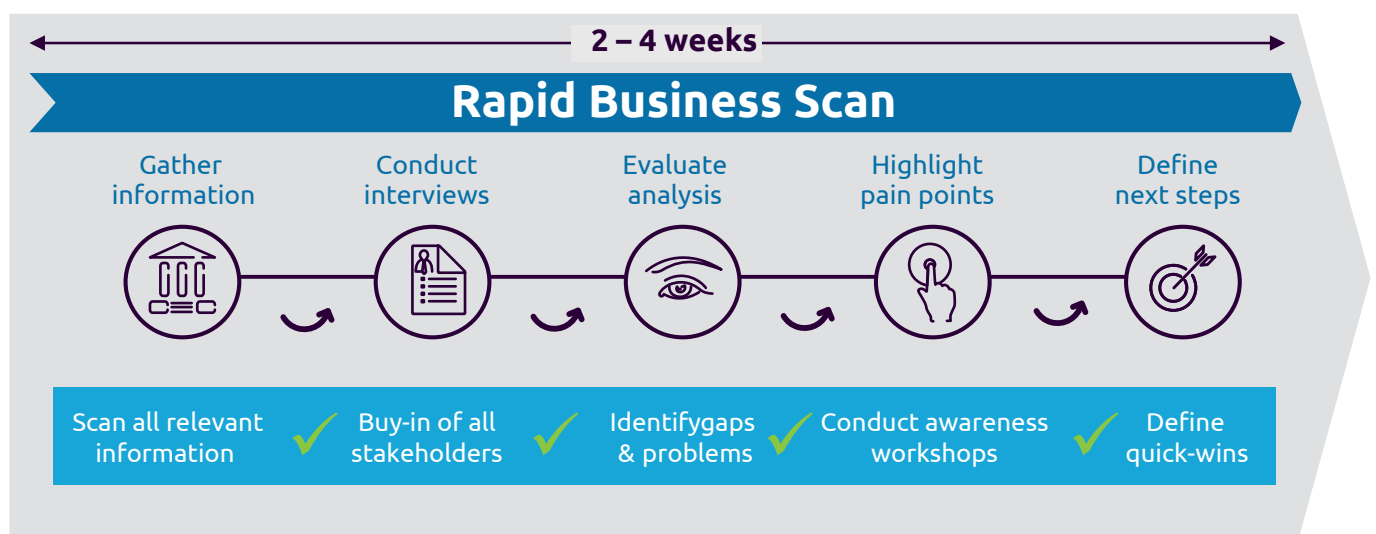


SCAN – A COMMON UNDERSTANDING OF PAIN POINTS TO ENSURE A STRONG COMMITMENT FOR ORGANIZATIONAL TRANSFORMATION

In order to ensure a quick and deep understanding of the as-is situation and to face the current challenges in the freight forwarding industry, Capgemini Invent applies its standardized, yet client specific analysis approach: **the Rapid Business Scan**. This proven and collaborative approach accomplishes an efficient analysis of the organisation as well as its processes and systems while at the same time ensuring buy-in at the beginning of the transformation journey.

By the end of the Rapid Business Scan, we are able to outline the importance and reason for certain steps and actions at different stages within the following projects. For all involved parties, it is easier to support the transformation based on a common understanding of the status quo. In addition, the jointly conducted rapid scan makes use of existing customer know-how and enables a joint definition of major pain points and quick wins, a clear imperative in every transformation journey.

Figure 2: Rapid Business Scan Methodology



Deep Dive - Client Example: The Rapid Business Scan

In the ramp-up of the project we conducted the Rapid Business Scan to:

- gain a profound understanding of the present organizational setup, current roles, responsibilities and process landscape.
- identify key pain points and optimization levers.
- ensure a common understanding of focus topics and quick-wins for the transformation phase.

By integrating stakeholders across all functions and levels we ensured the collection of valuable information and transformation buy-in from the operator floor up to management levels right from the beginning.

With the use of the Rapid Business Scan, Capgemini Invent identified that along with general trends in the freight forwarding market our client was facing typical organizational challenges following a period of tremendous business growth. The organizational setup was highly heterogeneous with responsibility overlaps and historically grown reporting lines. In fact, the organization was “in between” of two common setups - the geographical and the matrix setup – and struggled to live a global matrix strategy.



“Disruptive, technology-driven market changes force the industry to increase agility and adapt organizational structures”

FOCUS – ORGANIZATIONAL OPTIMIZATION TO LEVERAGE OPERATIONAL EFFICIENCY, INNOVATIONS AND FLEXIBILITY

A corporate organizational structure should be designed to achieve business objectives. There is no one-size-fits-all solution. The organizational set-up should be in line with the company's needs and corporate strategy. Capgemini Invent generally distinguishes three stereotype setups: product-lead, geography-lead and matrix organizations (see Figure 3 below).

These common setups can be compared and assessed based on the following five factors:

1. Roles and responsibilities
2. Financial steering & goal oriented KPIs
3. Process setup
4. Sales strategy
5. Network steering

Within a **product-lead organization**, one organizational unit is responsible for one product type, such as Airfreight, Seafreight or Road & Rail.

Roles and responsibilities are focused on the products of the organization, where a potential product head takes business decisions and defines standards – local staff act based on standard operating procedures. While this clearly fosters process standardization effort, this setup bears the risk of potential resource overlap since support functions might be duplicated.

Financial steering and KPI measurement lies in each product unit, bearing full governance for setting standards and guidelines and executing delivery for all global regions. Based on clear product P&L responsibilities, performance is measured by strong KPIs for handling global accounts along trade lanes.

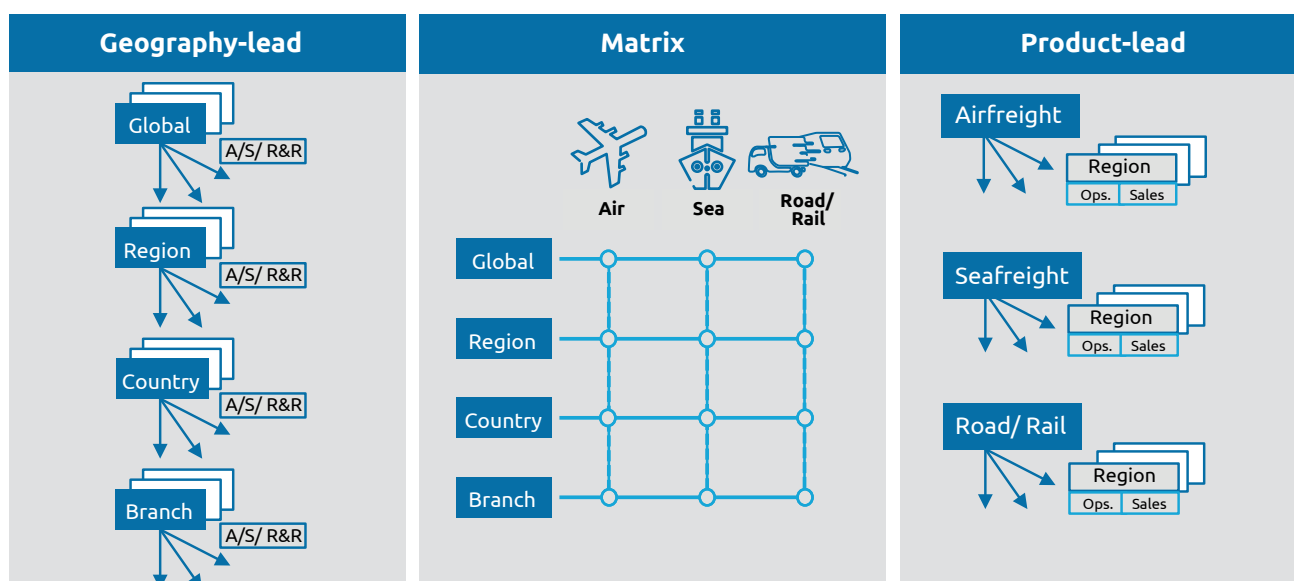
The organizational setup drives potential process synergies and cost savings. Given the centralized decision-making and defined processes, this setup can easily take advantage of economies of scale, standardize processes and IT to streamline operations and closely monitor costs.

The sales strategy concentrates on the product, and accounts are generated for each product unit. Synergies between product units are not the main strategy focus, as this organizational form highlights segment focus and incentives per total product sales.

Since the product head bears full process authority, global network steering is supported by each product unit. However, there are several shortfalls including limited flexibility for local specialities, difficulty in cross selling and serving of multi-product clients and potentially limited motivation at the local level.

Bottom line: High efficiency of processes and standards but potential lack of local responsiveness & cross-product synergies

Figure 3: Common organizational setups of freight forwarders



In the case of **geography-lead organizations** one unit is responsible for one geography, and roles & responsibilities are tailored around geographic entities.

Central functions play strictly a coordination role. Full responsibility for standards and guidelines, the authority for implementations and sales lie in each geographical region. While this allocation of decision-making authority enables customization, it bears the risk of lacking process standardization

This organizational structure implies a financial steering divided for each geography. Each geography executes the delivery, ensures the quality and bears the full costs. Thereby, it fosters local rather than global account management and realization of cross country projects along trade lanes. In short, geographic regions are measured by their own P&L and follow their own regional performance KPIs.

Diversity of locations brings about differences that require a unique strategy and sales responses. Since each geography represents a decentralized business unit able to adapt each process based on local requirements and needs, this organizational setup is not characterized by process standardization. Strong tendency of process heterogeneity causes greater difficulty in coordination among geographical units and operations.

Each geography can decide about the overall sales strategy according to local demand - the central product organization is consulted only. This enables the geographical units to take advantage of local cross-selling opportunities but limits the effectiveness of cross-geography or global sales strategies.

Bottom line: Maximum responsiveness with decentralized business, but potential lack of standardization and overall strategy.

A **matrix organizational structure** combines product and geographic structures creating a shared-responsibility-setup in which both product and geography take business-related decisions.

In a matrix structure, roles & responsibilities are oriented at the responsibility split between functional and disciplinary leadership (see Figure 4). Members of staff generally have two reporting lines, a dotted line (functional) and a solid line (disciplinary). Functional leadership generally entails the definition of standards, processes, responsibilities and KPIs, while disciplinary leadership calls for the implementation of standards, processes, responsibilities and KPIs as well as business responsibility and people leadership.

It is important to note that functional and disciplinary leadership do not equal product and geography. For example, while a central airfreight product head will generally serve as the functional lead for company-wide airfreight operations, he will most likely also be the disciplinary lead for central airfreight steering functions at the same time.

The financial steering and KPI measurement in a matrix organization are generally oriented at the dimensions of product vs. geography. Revenues, profit margins, costs, and performance improvements can be tagged to specific regions and products. This clearly implies a shared P&L responsibility of product and geographic functions.



Figure 4: Typical responsibility split within the matrix

	Functional Leadership ("Dotted")	Disciplinary Leadership ("Solid")
People	<ul style="list-style-type: none"> Involvement in recruiting process R 	<ul style="list-style-type: none"> People Leadership: Recruitment; Admin; Salary; Bonus A,R Authority to issue ("Weisungsbefugt") A,R
KPIs	<ul style="list-style-type: none"> Definition of funct. standards, framework & goals A,R Approval of contracts A,R 	<ul style="list-style-type: none"> Application of cross-functional KPIs C,I Implementation of contracts / operations purchase C,I
Standards	<ul style="list-style-type: none"> Definition of functional standard processes and responsibilities A,R 	<ul style="list-style-type: none"> Implementation of functional standard processes and responsibilities C,I
Org Structure	<ul style="list-style-type: none"> Accountable for Org Design Principles definition A 	<ul style="list-style-type: none"> Definition of org structure (along org design principles) R
Capacity & Resources	<ul style="list-style-type: none"> Definition of capacity and resource standards (e.g. shipments / FTE) A <p>Responsible for the definition of functional standards and budget</p>	<ul style="list-style-type: none"> Resource & Capacity Steering R Implementation of capacity & resource standards R <p>Cross-functional structure with business responsibility & responsibility for the implementation of standards</p>

A Accountable **R** Responsible **C** Consulted **I** Informed

Functional vs. Disciplinary Leadership does not equal Product vs. Geography

A matrix structure allows the organization to smoothly standardize heterogeneous structures and processes. Processes are centrally defined with a set leeway for potential adaption to geographical particularities. Lean process design with agile resource allocation can be combined, operating procedures are standardized in a way that ensures an effectively coordinated working set-up.

The sales strategy within a matrix organization focuses on a global sales setup with pre-defined decision authorities and cross-selling divisional sales. The typical setup of a branch manager as the local sales lead, embedded in a central sales design potentially leads to a more local customer-oriented sales strategy. Functional expertise remains strong within a sales matrix, while it facilitates rapid response to changing market trends. Clear segmentation and account management is key for a matrix sales organization.

Targeting the most profitable customers with specialized sales staff while maintaining appropriate service levels for the entire client base is a result of streamlined sales processes across products, geographies and customer segments.

Network steering within a matrix organization enables optimized operations with a focus on local efficiency in operational handling and global effectiveness through increased collaboration across divisions, cultures and time zones. The matrix organisations, thereby, focus on formal networks of global and local capabilities.

Bottom line: Strong degree of cooperation and agility within given standards but risk of continued and unclear responsibilities.

Deep Dive - Client Example: Implementation of a Matrix Organisation









Our client decided to implement a matrix organization as it offered the best combination of aspiration and existing corporate culture: local responsiveness with given standards. This matrix setup offered flexibility and more balanced decision-making as well as an increased motivation of the employees due to clear focus on tasks - shared responsibility was the biggest driver.

In addition, this set-up:

- followed the target of cost-effective functional processes and systems,
- enabled functional economies of scale,
- leveraged its current strength of local responsiveness and
- empowered its existing geographical footprint.

While leveraging existing flexibility, the transformation implied a certain degree of complexity in coordination, communication and monitoring. The aligned definition of decision-making powers and “hand-off” areas helped to tackle the risk of conflicts and power struggles.

Figure 5: Five key factors of stereotype organizational setups

	Geography-lead 	Matrix 	Product-lead 
Roles and responsibilities 	Roles & responsibilities along geographical entities	Shared responsibilities following functional vs. disciplinary leadership	Roles & responsibilities along product lines
Financial steering & goal oriented KPIs 	Clear P&L responsibility on geographical level	Shared P&L responsibility for products and regions	Clear P&L responsibility on product level
Process setup 	Potential lack of process standardization due to local process authority	Clear definition of escalation processes and conflict handling	Centralized processes allow synergies, e.g. procurement
Sales strategy 	Locally developed sales initiatives with potential lack of effective cross-region sales strategy	Centrally defined sales strategy across products and regions	Centrally defined, product-oriented sales strategy
Network steering 	Independent local business units with a local management of operations	Network steering through centrally defined standard processes for operations	Global steering of product unit and network

“Create one team at one central location to increase organizational transparency, reduce small customer complexity and save costs”



The Order and Booking Desk

Reducing small customer complexity is one of the biggest challenges within the freight forwarding industry. Generally, small customer complexity with customer-facing activities such as customer service as well as order and booking activities is the initial point of the process chain. Introducing innovative technology, optimised processes and stringent business rules fosters increasing quality and efficiency of small business service provision and ultimately increases customer satisfaction. However, these improvements fall short of optimisation potential without a centrally steered organizational setup. Centralising small business services in a dedicated unit not only increases the agility of service units but often helps in realising quick wins in reducing small customer complexity. It increases transparency in day-to-day small customer handling and allows the business to quickly pilot new organizational setups, processes and tools. Especially in the short run, it is inevitable to create one team at one central location to increase small customer process transparency, reduce organizational complexity and save costs.

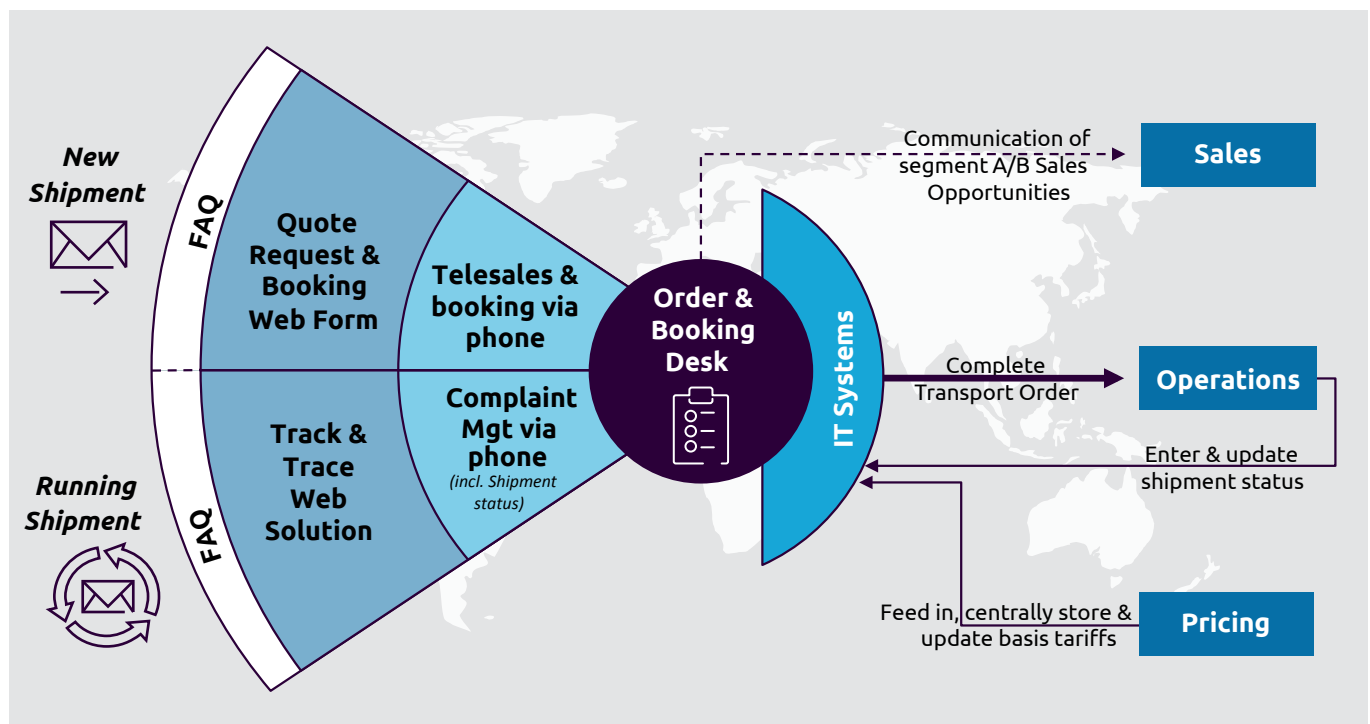
Deep Dive – Client Example: The Order and Booking Desk

In order to reduce small customer complexity one of the first most important tasks was to develop a concept for a centralised small customer service unit: the order & booking desk. We designed a streamlined organizational setup, simplified business processes as well as standardised service levels and tariffs for small Air- & Seafreight customers. The order & booking desk generally follows the idea of a central focal point for small customer interaction to:

- Serve as a “filter and shield” function increasing the efficiency of Air- and Seafreight Operations and Pricing teams
- Increase professionalization and standardisation of small customer service provision

The initial setup can subsequently be improved by additional layers such as FAQ, web forms as well as routed phone systems where the customer is able to enter his request or track his complete transport order.

Figure 6: The Order and Booking Desk



ACT – GRIDLOCK WITHOUT A SUCCESSFUL CHANGE CONCEPT

One of the biggest challenges in organizational transformation is resistance to change. Sustainable change requires the acceptance of new working behaviours and adoption of new profiles and processes. Hence, efficient change management including proven methods and tools, such as **change ambassadors** can reinforce organizational transformation.

Creating a change ambassador network not only increases the transparency and acceptance of the ongoing transformation but constantly enables “pre-testing” of upcoming changes and identification of potential resistance within the organization as early as possible.

Change ambassadors act as internal ambassadors for the organizational transformation project. Operating as the first point of contact regarding the project and being present throughout the entire organization ambassadors actively support the communication and implementation of changes within branches and teams by acting as multipliers as well as a change radar for the project.

The integration of change ambassadors provides crucial feedback for a tailor-made implementation approach and increases the acceptance of transformation by creating an environment of trust.

Change ambassadors, nominated by project sponsors, receive targeted training and regular content updates to deliver an information advantage and the opportunity for constructive feedback.

Figure 7: The concept of change ambassadors



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CONCLUSION

Current trends in the freight forwarding industry are both promising and challenging for traditional forwarding businesses. Increased price volatility, pressure on margins and professionalism on clientside demand more transparent and readily available price structures. Increasingly globalized customers ask for globally integrated solutions instead of carrier space. Start-ups and disruptive competitors line up to serve these customers with digital and technology-driven solutions leveraging the benefits of technology.

While this market environment challenges traditional freight forwarding business models, new opportunities for businesses with optimized processes, systems and organizational setups emerge. Strong matrix organizations enforce cooperation, joint responsibilities and enable standardization with defined room for movement. Product-led setups foster process efficiency and specialization while geography-driven structures promote local business responsiveness. While there is no one-size-fits-all structure for freight forwarders in the 21st century, we are looking forward to supporting you on your transformation journey with our collaborative and proven organizational excellence approach.



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