The Power 25: Back to the basics for forwarders amid supply chain chaos

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Features

After bumper years for airfreight in 2017 and 2018, last year was "the worst year for airfreight demand since 2009," according to IATA. No longer could the creme de la creme among forwarders continue building up denser volumes of heavy pallets absent a cogent strategy. With 17 of the top 25 airfreight forwarders reporting lighter loads in 2019, strategy refinement was already on the radar of many in the logistics industry before the onset of the COVID-19 crisis.

Nearly halfway through 2020, it is clear this black swan event has the potential to decouple links in the global supply chain. The threat of digital disruptors hyped in past years has now yielded to the more urgent sources of uncertainty in logistics: the supply chains themselves, and reliable capacity to move goods through them.

Though 2019 may seem the distant past, it offers lessons on how, even amid a raging current, some of the bigger fish manage to swim upstream. In a change from the halcyon days of 2018, when the top forwarders universally saw healthy tonnage increases, annual comparisons vary greatly among this year's top 25, leading to changes in the rankings across our Power 25 list.

The most tectonic of shifts resulted from the mega-merger of two airfreight heavyweights, DSV and Panalpina, completed last year. With Panalpina and DSV ranking No. 4 and No. 9, respectively, on last year's list, the combined handle of **DSV Panalpina**, based on proforma calculations, landed it the No. 2 spot on our list.

The Power 25 list was compiled with the cooperation of Armstrong & Associates Inc., a U.S.-based supply chain consulting firm, which ranked the 25 largest forwarders based on their 2019 air tonnage.

Narrowing the gap

DSV Panalpina's leapfrogging of the now No. 3 forwarder, **Kuehne + Nagel**, has narrowed the spread between the top three forwarders. In 2018, 430,000 tonnes separated the Power 25's gold and silver recipients. Last year, DSV Panalpina lagged DHL Global Forwarding by only 326,000 tonnes. The distance between Kuehne + Nagel and Panalpina is also relatively slim at just 82,000 tonnes, making future shake-ups at the top a possibility.

Top-ranked **DHL Global Forwarding** saw volumes slip 4.6% in 2019 as the unit of Deutsche Post DHL Group turned its focus to margins. The division increased operating profit for its forwarding division by 17.9% year on year to reach 521 million euros.

After steady and stable growth that carried No. 5 **Expeditors**' airfreight volumes across the 1-million-tonne mark for the first time in 2019, the company reported a YoY drop in airfreight tonnes for each month in 2019. Expeditors' airfreight tonnage dropped 6% YoY in the fourth quarter of 2019, which company CEO Jeffrey Musser blamed on the "business environment in which we are operating" rather than "the result of a business performance issue." With significant exposure to trans-Pacific lanes, Musser said the company's volumes in Q4 of 2018 were elevated as its customers rushed to move product to market ahead of scheduled tariff increases on U.S. imports from China.

This year's No. 6, UPS Supply Chain Solutions, edged closer to Expeditors as its volumes increased 2.1% to 955,000 tonnes. Just 10,000 tonnes prevented UPS from unseating Expeditors from the top five.

Company	Current Rank (2018 Rank)	↑ 2019 Airfreight Tonnes	2018 Airfreight tonnes	Change in tonnage from 2018
DHL Supply Chain & Global Forwarding	1	2,051,000	2,150,000	-4.6%
DSV Panalpina	2 (#)	1,725,000	1,720,000	0.3%
Kuehne + Nagel	3 (2)	1,643,000	1,743,000	-5.7%
DB Schenker	4 (3)	1,186,000	1,377,000	-13.9%
Expeditors	5	965,700	1,011,563	-4.5%

*The merger of DSV and Panalpina shifted the ranking of this year's top-5. See the full Power 25 chart **here**.*

Against the current

Unsurprisingly, given the larger number of medium-sized forwarding operations, the larger shakeups in the Power 25 rankings occurred in the middle.

With airfreight tonnage up 1.5% in 2019, **Hellmann Worldwide Logistics** displaced Kintetsu World Express and edged into the No. 10 spot.

"Apex Logistics International is the only airfreight forwarder that has avoided the primarily negative year-over-year air tonnage trend the rest of the providers endured," said Amy St. Peter, market research manager of Armstrong & Associates. The China-based company jumped three spots to No. 11 in 2019, narrowly missing Top 10 status. Apex's growth has been fueled by its portfolio of customers in e-commerce, specialty retail, high-tech and cool chain sectors, St. Peter added. "A focus on industries largely comprising 'essential' items should help Apex stay on track through the pandemic."

Dachser Air & Sea Logistics was another forwarder to buck the trend of sliding volumes, advancing two positions on the list to No. 17. Tonnage was up 3.4% YoY in part due to the launch of two new product verticals, Fashion & Sports and Life Science & Healthcare, according to Timo Stroh, head of global airfreight for Dachser.

After joining the Power 25 list in 2014, Pilot Freight Services' volumes remained relatively stable through 2018, when growth returned. With tonnage up 4.3% in 2019, Pilot moved up a rank into the No. 23 position. Alongside its global forwarding operation, Pilot has worked closely with retailers during the past two decades to provide last-mile delivery services in the heavy and hard-to-handle space. As its systems have become more closely intertwined with retailers, Pilot has grown its business with other blue chips, including Amazon and Walmart. "The level of integration between with our systems from an API perspective with the large e-commerce customers enables us to react quickly in that space," said John Hill, president and CCO of Pilot Freight Services.

FedEx Trade Networks moved up two rankings to No. 20 this year. Moving up was only made possible because FedEx's 5.0% decrease in airfreight tonnage was less severe than declines of 17.5% and 13.3% at NNR Global Logistics and Hitachi Transport Systems, which now occupy No. 21 and No. 22, respectively.

Japan-based forwarders, including NNR and Hitachi, play an outsized role in the airfreight forwarding market relative to the size of the domestic market, with five Japan-based companies landing on this year's list. Despite the international scale of Japan's major transportation firms, none was able to avoid softer volumes stemming from exposure to a weak local market.

"Personal consumption, which has been sluggish, declining business investment and a decrease in industrial production, construction and project freight-related declines and the trade war between the U.S. and China," are responsible for some of the headwinds, according to St. Peter.

Tonnage transported by Nippon Express, Japan's largest airfreight forwarder by volume, fell 16.3% to 753,000 tonnes, erasing gains in 2017 and 2018. Despite the slide, Nippon Express remained firmly seated in its No. 7 spot. Yusen Logistics, meanwhile, rose one rank to No. 16, despite tonnage that was lower by 9.0% on an annual basis.

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Cloudier skies yet ahead

While 2019 was turbulent for many in transportation management space, with the arrival of the COVID-19 crisis — which has snarled supply chains and upended capacity and predictable demand — 2020 is expected to be an even bumpier ride.

Block space and other long-term capacity agreements traditionally defining the forwarder-carrier relationship were for the most part eroded by way of force majeure in April. Charter flights utilizing full-freighter aircraft and passenger aircraft carrying only cargo add pricier, but dependable capacity.

Signs of slight rate relief are on the horizon, but the near historic lows visible in January and into February are unlikely to return any time soon. Returning bellyhold capacity to the market, and on lanes where capacity is strained, will take time. “We are not going to see those numbers again until till 2023 at the very earliest” Rosen estimates.

Though the crisis will have profound impacts for years to come, many forwarders see their asset-light operations as well equipped to handle the volatility. Not all forwarders see it as a necessity to dramatically alter course in response to the pandemic. Matt Castle, vice president of Global Forwarding for C.H. Robinson says its core-lane strategy that was in place before the pandemic remains relevant today.

“Even when the commercial focus changes or shifts from one particular region, it’s all funneling itself back into what we consider to be one of our core lanes,” said Castle. C.H. Robinson leverages its surface transportation business to boost the reach of catchment areas of the core airports that comprise its network. Consolidating through a smaller number of key gateways, according to Castle, reduces volatility across geographies and commodity types.

The Panalpina-DSV merger shook up this year’s rankings and further consolidation among forwarders is expected as many smaller forwarders struggle to maintain cash flow and continue operating.. “It would be a surprise if the economic impact of COVID-19 did not lead to a further development of this trend,” said Dachser’s Stroh.

There is still hope for a strong turnaround at the other end of the crisis. Once economic activity picks up, “There will be significant order volume to replenish inventories and fill backorders, driving demand for air freight and expedited transportation,” said St. Peter.

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