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Sector Profile of the Canadian Freight Forwarding Industry



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Expansion

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SECTOR PROFILE
OF THE
CANADIAN FREIGHT FORWARDING INDUSTRY
FEBRUARY 1985

Annexes:

- A - Sources of Data and References
- B - Types of Traffic Service Business Organizations
- C - Freight Forwarding and Customs Brokerage Services
- D - International Freight Forwarders Interface Comparison Study

Transportation Services Division
Service Industries Branch
Department of Regional Industrial Expansion

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EXECUTIVE SUMMARY

The Canadian freight forwarding industry includes forwarding and/or customs brokerage companies operating as a sub-sector of the Canadian traffic service industry. The industry acts on behalf of shippers to arrange all services necessary for the delivery of goods to their consignees. Decisions made for shippers for the purchase of traffic and transportation services affect the ability of clients to serve domestic and international markets, particularly where sales are sensitive to costs and delivery times.

The 430 companies in the freight forwarding industry, receive approximately \$1 billion sales per year, employ 9 500 Canadians and operate 1 200 offices in Canada. It is estimated that the industry controls 20 per cent of cargo moving in Canadian trade valued at \$30 billion in 1982.⁽¹⁾ This industry is undergoing major structural changes in response to new market conditions. The large number of small regional companies with limited capabilities are slowly being absorbed into larger organizations that offer a broader range of traffic and transportation services. As a result, forwarders are becoming principals in transportation contracts with a new set of liabilities. In order to meet these new obligations, the industry is establishing new contract terms to clearly distinguish their services from those of common-carriers.

Opportunities exist to improve the sector's performance and to develop stronger linkages with shippers, particularly small business. The industry's role in assisting shippers to obtain lower transportation rates will become more important in the future if transportation deregulation continues to spread in North America. Productivity improvement in the industry is being pursued through the introduction of computer technology for handling paperwork and transmission of information to other parties involved in the transportation chain.

The establishment of more world scale companies in Canada could serve Canadian shippers more effectively. The ability of a small number of foreign controlled multinational companies (49) to dominate a major segment of the Canadian market (40 per cent) is attributed to their excellent capabilities and is reflected in their well established international networks of offices. There is a need to acquire similar capabilities in the rest of the industry to provide shippers with access to more companies with sufficient volumes of cargoes to permit them to negotiate economical rates with carriers or establish new routes unique to Canadian trade requirements. In addition, a stronger forwarding industry could make a positive contribution to Canada's trade development strategies.

(1) reference (h) Annex B

Key problems inhibiting the industry from reaching its full potential are:

- (a) the lack of understanding of its present capabilities by shippers and governments in trade development strategies,
- (b) inconsistent levels of service and distribution capabilities among freight forwarding companies,
- (c) the absence of any accreditation schemes to help shippers select competent forwarders,
- (d) the absence of adequate forwarder training programs, and
- (e) the limited availability of resources to promote industry interests with respect to marketing, government policies or other industrial development initiatives.

Opportunities exist for the government to collaborate with the industry on activities that support Canadian trade objectives. The business opportunities sourcing system (BOSS) provides a means to make shippers aware of the availability of forwarding services. The program for export market development (PEMD) could be examined as a possible mechanism for forwarders to establish new offices or agency agreements in foreign countries. Although there are no sector specific government assistance programs available for the industry, indirect assistance is possible through programs such as the CIDA aid and industrial cooperation programs, government procurement, and the Department of External Affairs trade facilitation program for the simplification trade procedures.

Forwarders do not appear to be capable of directly influencing general export/import activity. However, benefits to the economy would accrue from the education of shippers on how to use the forwarding industry more effectively as a distribution tool. This could lead to:

- (a) increased levels of exports by small business, and
- (b) an expansion of Canadian trade in new or difficult markets.

INTRODUCTION

Transportation and traffic service companies are used by shippers to deliver goods with minimum costs at required levels of customer service in order to increase their market shares and profits. While transportation companies are used to carry goods in highway vehicles, railcars, aircraft and vessels, the shipment of goods in the distribution chain also depends on the traffic management, inventory control, warehousing, materials handling, packaging, insurance, financial, documentation and customs clearance services of the traffic service industry. The total cost of traffic services for the physical distribution of goods often exceeds the cost of transportation. Commonly known types of traffic service businesses in Canada are shown in Annex A. Among them is the freight forwarding industry, which arranges transportation and traffic services on behalf of shippers. The industry provides shippers with traffic management expertise for the effective use of domestic and international physical distribution systems. Customs brokers are considered to be part of the Canadian freight forwarding industry.

This sector profile of the Canadian freight forwarding industry describes the role of the industry in the Canadian economy in order to identify industrial development opportunities with potential economic regional or trade benefits. It has been prepared by the Transportation Services Division of the Service Industries Branch as a reference document for further discussion of issues with industry.

The study is based on currently available information, as noted in Annex B, Sources of Data and References and Tables of Information on Canadian Freight Forwarding and Customs Brokerage Companies. Readers should be cautioned on the limited availability of statistical data. It is for this reason that the paper identifies where further examination of certain aspects of the industry are necessary to gain a better understanding of the importance of issues raised herein.

1. DEFINITION OF THE INDUSTRY

Freight forwarders are defined by Statistics Canada in its 1980 Standard Industrial Classification (SIC) Number 4592 as: "Establishments primarily engaged in arranging the transportation of goods from shippers to receivers for a fee."

The freight forwarders' knowledge of physical distribution and international shipping requirements provides clients with instant access to general or specialized traffic management expertise. They arrange services to move any shipment anywhere, or operate as specialists with unique knowledge to serve certain world regions, handle different types of commodities, or move goods efficiently by different modes of transportation. Their worldwide networks of offices and/or agents are an essential part of their services. They provide communication, distribution, and commercial intelligence services that are not normally available to shippers acting on their own behalf.

Forwarders assist shippers in carrier selections, routings, and rate negotiations. Transportation costs can be reduced through the use of a forwarder acting on behalf of several clients. This allows small consignments to be consolidated into larger shipments to obtain lower transportation rates. When shipments arrive at their destinations, the forwarder's offices or agents will break down the load for local distribution. In the above example, the Canadian forwarder performs a consolidation service and the foreign office or agent provides a break-bulk service. Forwarders also assist shippers to prepare shipping documentation, arrange cargo insurance, and establish export credits. They can provide or arrange for the physical packing, inspection, storage, handling and loading of shipments.

Many companies offer customs brokerage services (SIC #7794) in order to further simplify the delivery of goods. Customs brokers under power of attorney from clients, clear shipments through customs, secure export/import licenses and permits, and assist in the classification of goods for customs entries. A more detailed description of services available from customs brokers and freight forwarders can be found in Annex C.

2. CURRENT STATUS OF THE INDUSTRY

There are 430 freight forwarding and customs brokerage companies operating approximately 1 200 offices with 9 600 employees in Canada. Net sales for the industry are estimated to be almost one billion dollars per year.⁽¹⁾ This amount

⁽¹⁾ Reference (g) Annex B.

includes monies received for services rendered less payments made to carriers and other traffic service companies on behalf of shippers.

Freight forwarders play an important role in the Canadian economy considering the significant cost of physical distribution in both domestic and international trade. According to a 1979 Statistics Canada survey⁽¹⁾ of manufactured shipments, 50 per cent of domestic production is consumed within local regions, 24 per cent exported and 26 per cent distributed to other provinces. The bulk of Canadian international trade was with the United States, Europe, Japan and Australia. Only 13 per cent of Canadian exports were shipped to lesser developing economy countries (LDC). In 1982, Canadian international trade⁽²⁾ was made up of Canadian exports valued at \$84.5 billion and imports amounting to \$67.9 billion. Some \$3.3 billion of import duties and \$1.1 billion of sales tax were collected for 2 880 357 export and 7 590 773 import customs entries. Table 1, "Estimate of Physical Distribution Expenditures", shows the relative significance of physical distribution costs incurred by Canadians in 1979. Projecting these figures, the approximate cost to distribute Canadian domestic and international trade in 1982 was \$33 billion.

Forwarders control 20 per cent of international traffic used in Canadian trade⁽³⁾. On average, forwarders receive 60 per cent of their revenues from the shipment of imports and 40 per cent from exports. This is the result of the high volume of import traffic, which tends to be finished goods that are more suitable for distribution by forwarders than bulk commodities exported from Canada. Customs brokers handle approximately 90 per cent of import entries.

Canadian companies offering freight forwarding services are often engaged in customs brokerage and public warehousing (SIC #4791). Due to the integration of operations, customs brokerage is becoming an essential part of the freight forwarding industry. However, public warehousing is primarily a domestic industry where only part of its activities are used for the physical handling and storage operations associated with freight forwarding. Of the 430 forwarding and customs brokerage companies in the industry, 37 per cent specialize in forwarding, 27 per cent only provide customs brokerage services, and 35 per cent offer both services. In total, forwarding services are available from 306 companies. Approximately 60 per cent of the 268 licensed Canadian customs brokerage firms offer some form of freight forwarding service⁽⁴⁾, while others have close business linkages with forwarders.

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- (1) Reference (e) Annex B.
 - (2) Reference (h) Annex B.
 - (3) Reference (h) Annex B.
 - (4) Reference (a) Annex B.

3. INDUSTRY STRUCTURE AND OWNERSHIP

Freight forwarding is a very young industry in Canada, when compared to its mature counterpart in Europe. It has developed as an extension of the business activities of customs brokerage, warehousing, and transportation companies rather than as a unique industry on its own. In early Canadian history, customs brokers assumed responsibility for the inland distribution of imported goods due to the absence of a domestic forwarding industry.

3.1 Corporate Structure

The majority of the companies in the industry are small businesses. Table 2, "Number of Offices per Type of Company", shows that approximately two-thirds of the establishments (275 of 430) operate just one office. However, Table 3, "Relationship of Employment to Number of Offices", shows that the 155 remaining companies or 36 per cent of the industry have offices in more than one city. The latter group provides most of the services to shippers through 919 or 77 per cent of all offices. Approximately 75 per cent of revenues accrue to 12 per cent of the companies (see Table 4, "Freight Forwarders Revenues, Assets, Liabilities and Pretax Profits").

While forwarding, customs brokerage or both services are available from single office companies, small companies tend to specialize in one or the other service. They represent 72 per cent of all companies that specialize in forwarding, and 80 per cent of all companies that only offer customs brokerage services (Table 2). The larger multiple office companies tend to provide both services, as well as subsidiary warehousing, transportation, and travel services. Information in Table 2 shows that 30 per cent of the multi-office companies specialize in forwarding, 14 per cent in customs brokerage, with the largest proportion (56 per cent) offering both services. As illustrated by the large multi-office firms, there is a general trend towards the expansion of the range of services offered by companies in the industry.

The two largest firms in the industry (Kuehne and Nagel and Livingston International), with 1983 sales of \$259 and \$149 million respectively, are examples of traffic service companies which offer a full range of forwarding, customs brokerage and public warehousing services. Consolidated Freight Ways, a United States highway carrier, with its recent purchase of Milne and Craighead Forwarding and Customs Brokerage, is a typical example of a carrier's entry into the freight forwarding business. These corporate conglomerates offer services under their corporate names or through subsidiaries.

The size of a company appears to relate primarily to the number of branch offices it has, rather than any concentration of staff at a single location. This relationship can be seen in Table 3 where the average number of employees per office ranges from six to 13 people for all companies in the industry.

The Transport Canada Study of "Freight Forwarding in Canada⁽¹⁾" concluded from an analysis of Statistics Canada Corporate tax returns for the years 1973, 1976, and 1980 that "Growth (in the sector) appears to have been quite substantial. There were fewer small firms and the number of large firms with sales greater than \$5 million per year more than doubled between 1973 and 1980. The number of firms with sales greater than \$10 million appeared to remain relatively consistent. The ratio of equity to liability remained high and fairly stable over the period which reflects a picture of growth and financial vitality".

There has been a general concentration of corporate ownership in the industry in recent years. The economic downturn in domestic and international shipping during the period 1981-1983 resulted in numerous mergers, acquisitions and some bankruptcies. Over 100 companies were bought-out or closed during this time. The majority were small firms specializing in forwarding or customs brokerage, in addition to the normal turnover among less competent operators.

Considerable competition exists among companies; however, the industry is small and works together whenever it is convenient to do so. Where forwarders have a known expertise or a unique distribution capability to certain parts of the world, other forwarders will use it for their shipments through referrals, partnerships, sub-contracts or co-loading agreements. This had led to a web of inter-corporate business agreements or partnerships.

The industry is very flexible and innovative in pursuing business opportunities as they arise. Freight forwarders have traditionally operated as agents for the arrangement of physical distribution requirements for shippers, without acting as carriers. However, the diversification of services in the industry and demands from shippers for door-to-door multimodal services under fixed price contracts are changing the forwarders relationship with clients where the forwarder must now contract as a principal⁽²⁾, or even operate as a non-vessel operating

(1) Reference (g) Annex B.

(2) Principal: Company that assumes total responsibility and liability for the performance of a service.

common-carrier⁽¹⁾ (NVOCC). This new development has also encouraged carriers to provide forwarding functions as part of their multimodal transportation services. This situation is blurring existing distinctions between forwarders and common-carriers, as traffic and transportation services become integrated within corporate structures. The current level of carrier involvement in the forwarding industry is not fully understood at this time.

3.2 Regional Structure

Freight forwarding and customs brokerage services are available to shippers through 1 188 offices in 160 cities in all provinces of Canada except Prince Edward Island. A large concentration of offices and headquarters are found in the cities of Montreal, Toronto and Vancouver. Table 5, "Location of Freight Forwarders and Customs Broker Offices in Canada", shows that 90 per cent of companies and offices are located in the provinces of Ontario, Quebec, British Columbia, and Alberta.

Factors affecting decisions for the location of offices are:

- a) the amount of traffic generated by the industrial activity of a community,
- b) the availability of transportation,
- c) local labour costs,
- d) land costs for companies with terminal or warehousing operations, and
- e) the location of Canadian and foreign government offices.

The business activities of small companies are regionalized. Even the majority of multiple office firms tend to operate exclusively in either eastern or western Canada. Table 6, "Matrix of Forwarders Located in More Than One Province", shows the number of forwarders with offices in more than one province. Only 15 have offices in every region of Canada. In order to link companies operating in different provinces, a number of business schemes have evolved for the

(1) NVOCC: A company that has bought rights to control transportation equipment but does not own it. The latter group are often referred to as non-vessel operating common-carriers (NVOCC) for water shipments and shipping or transportation brokers for surface movements. (For purposes of this paper, both will be referred to as NVOCCs.)

handling of freight moving through Canada. For example, Freight Consolidators of Canada provides a national network of offices through members made up primarily of local customs brokers. Locher Evers offers forwarding services under a single corporate name through a partnership of semi-independent offices in the cities of Montreal, Toronto, Winnipeg and Vancouver. Another mechanism to consolidate the business activities of small forwarders and customs brokers into a larger and more effective organization under consideration in Canada and Europe is the use of franchising.

3.3 Ownership

Freight forwarding and customs brokerage companies in Canada are controlled by several interest groups. The Canadian owned sector has been developed primarily by customs brokers and by former employees of multinationals. The second ownership group consists of highway, rail or ocean carriers. The third group operates as subsidiaries of foreign controlled multinationals.

Canadian shippers are well served by foreign controlled companies operating in Canada. Initially, foreign controlled companies were owned by West European international freight forwarders. Recently, American, Japanese, and Australian multinational companies have also entered the Canadian market. They have played a major role in training Canadians employed in the industry, particularly those that have started their own businesses. It would appear from an examination of 49 foreign controlled companies identified in a list of 430 companies, that there is a low percentage of foreign ownership in the industry. These 49 multinational companies only represent 11 per cent of the 430 companies in Canada. However, they maintain an estimated 40 per cent share of the Canadian market⁽¹⁾. This indicates that they dominate certain market sectors, rather than corporate ownership. The reason for their success is attributed to shipper confidence in the capabilities of their well established international distribution and commercial intelligence networks.

4. LABOUR AND MANAGEMENT CHARACTERISTICS

Freight forwarders and customs brokers employ 9 500 Canadians. These non-unionized salaried staffs are engaged as clerks to handle paperwork, and as technicians trained in traffic management or customs clearance procedures. Physical handling, storage and loading operations are normally contracted out to other traffic service companies or warehousing subsidiaries.

⁽¹⁾ reference (c) Annex B

The availability of competent staff is a crucial factor in the success or failure of companies. In periods of high activity, there is a shortage of trained people; and everyone in the industry acknowledges that skilled personnel are difficult to find. Qualified people are solicited and retained even in periods of low activity. It is not uncommon for a company to absorb short-term productivity reductions arising from changing market conditions, rather than to reduce total salary costs in order to maintain short-term profitability.

There appears to be very little employee loyalty to companies in the long term. Most people have worked for one or more competitors, and staff move readily from job to job. Reasons for this migratory tendency include the following:

- (a) demand for skilled staff;
- (b) high skill levels required;
- (c) modest remuneration levels for responsibilities and technical skills demanded;
- (d) absence of training programs to supply the labour pool, and
- (e) career and learning opportunities available from job rotation.

Other than on-the-job training, there are few educational programs in Canada that teach skills required by freight forwarding employees. The Canadian International Freight Forwarding Association (CIFFA) has introduced a training program to certify students as freight forwarding technicians (see annex E). Texts are based primarily on the translation of European training manuals. CIFFA has spent \$30 000 to-date on the preparation of texts, some of which still require translation into French. In addition, the International Federation of Freight Forwarders Association (FIATA) operates a six week training program in Austria each year which is oriented towards air cargo.

The Canadian Institute of Customs Brokers provides courses to prepare people for the Revenue Canada/Customs and Excise Customs Broker licence exams. Other courses exist for the professional development of traffic managers, through the Canadian Association of Physical Distribution Management (CAPDM), the International Material Management Society, and the Canadian Institute of Traffic and Transportation (associated with the Canadian Industrial Traffic League). None of these association education programs enjoy any formal recognition from post-secondary educational institutions.

Managers in the industry have gained their positions on the basis of practical experience rather than entry after university or college training. This is partially due to the absence of subjects related to physical distribution logistics or freight forwarding in existing business school programs.

5. MARKET STRUCTURE

Forwarders are primarily involved in international trade. Although the size of their domestic market is not known, a number of companies operate rail pool car services for the consolidation of railway shipments between western and eastern Canada. However, traditional markets are import/export shipments between Canada and Europe, the Far East and Australia. Forwarders specializing in project work are involved with aid and project work in less developed economy countries.

The most significant recent market development for forwarders is their increased participation in export trade with the United States. This new market can be seen in Table 7, "Geographic Distribution of International Freight Forwarder Revenues". Forwarders have not been involved with Canadian exports to the United States in the past due to the simplicity of customs documentation and the availability of services from numerous carriers. The recent development in the Canada-USA market is a result of United States deregulation of highway and rail carriers. Small shippers are finding it difficult to obtain competitive rates from carriers in the United States without a great deal of work because their carriers are no longer required to file rate tariffs. International trucking has not been deregulated and rates are considerably higher than those available from domestic carriers in the United States. Forwarders have found ways to bypass these high international rates through the cartage of goods to the border for transfer to United States highway carriers. It is claimed that up to a 45 per cent reduction in transport costs can be realized by shippers using this service. The forwarders' ability to control this traffic has put them in a favourable position to compete with carriers. Another example of the impact of United States' deregulation is the growth of NVOCC's in that country. Their numbers rose from 39 to 700 in one year.

In assessing the marketing practices of the industry, one overwhelming factor is the level of relatively pure competition. Competition is based on either special services and/or price. The major strength of the industry is its flexibility in meeting customer requirements. Forwarding companies are very innovative and pragmatic. If they are confronted with new service requirements, they will do whatever is needed to meet them. Forwarders compete not only with one another but directly with carriers. If transportation deregulation, similar to that of the United States, is introduced in Canada, forwarders will have a greater opportunity to increase their share of the transportation

market. This trend is shown in point 4 of Table 8, "Estimated Percentage Use of Forwarders by Exporters for Various Reasons", where increased revenues are anticipated from "more competitive rates through consolidations".

6. COST STRUCTURE

6.1 Sources of Revenues

Forwarders and customs brokers receive revenues in several ways. Fees for services may be set down for specific tasks or billed as a percent of the value of the transportation costs. Forwarders in the business of buying and selling transportation and traffic services may charge customers a percentage mark-up, or quote a fixed price that is competitive with rates available directly from carriers.

The greatest opportunity for profits comes from consolidation services. Cargo space is bought in bulk from carriers at a low rate and then resold at a higher rate to those clients who cannot provide full ship, container, truck or railcar loads. The forwarder's profit is the difference between what is paid to the carrier and what is charged to the shipper. Rates charged to clients are structured whereby large volume shipments receive preferential rates because they guarantee a minimum volume. Smaller shippers are given another rate. In either case, clients obtain lower rates from forwarders than those available directly from the carrier.

More attractive rates may also be obtained for large shipments through forwarders who can negotiate with carriers to obtain freight-all kinds rates. These rates are lower than commodity rates available to shippers. Under deregulation in the United States, carriers have been permitted to give NVOCC's volume discounts.

Revenues are also obtained from other forwarders through agreements for the handling and processing of their shipments. Agreements exist for the sharing of commissions and fees between Canadian forwarders and their international partners or offices; fees for handling break-bulk shipments, and the billing of small forwarders for co-loading their goods in cargo space reserved by a larger forwarder.

A more specialized source of revenue comes from contracts to provide all logistics services necessary to ship project materials to their destination. In this case, forwarders are usually committed to complete the contract at a fixed cost, as a principal or transportation contractor. They must have sufficient financial backing to maintain cash flow requirements and pay for performance bonding. The performance bond can be forfeited when disputes arise.

In addition to revenues from shippers, forwarders also receive commissions and brokerage fees from carriers. Forwarders licensed as IATA cargo agents receive commissions (5 per cent of air freight charges) from IATA member airlines. Similarly, ocean conference lines pay forwarders brokerage commissions of $1\frac{1}{4}$ per cent of the value of the ocean transportation charges as per written agreements. Non-conference commissions may exceed these rates in order to attract traffic.

Considering the amount of work eliminated for the shipper, the cost for forwarding or customs brokerage services is a small amount to pay to ensure that goods reach markets in saleable condition. Forwarding services are approximately 11 per cent of transportation and traffic service costs, while customs brokerage services average 3.3 per cent of the value of duties and taxes paid. Relating these costs to the value of the shipment, customs brokerage fees are only 0.2 per cent of the value of the goods, and forwarding costs average 2.2 per cent of the value of the shipments. The average profit on net revenues of forwarders ranges from 8 to 11 per cent.

6.2 Operating Costs

As in most service industries and small businesses, labour is a major cost element for the industry, accounting for an average of 57 per cent of total operating costs; followed by communication costs at approximately 6 per cent. Fixed assets are a relatively minor cost in that office space, warehousing, computers, and materials handling equipment are readily available through rentals or leases. The level of total operating assets required is significant nevertheless, because of the need to maintain a balance between accounts receivable and accounts payable. Sufficient lines of credit and cash flow reserves must be maintained to pre-pay for transportation, traffic services, duties and taxes on behalf of clients. Adequate sources of funds can be critical for project work, particularly with respect to financial guarantees required for performance bonding.

An interfirm comparison study of ten freight forwarding and/or customs brokerage companies was undertaken by the Department of Regional Industrial Expansion (DRIE) in 1983 (1) to obtain a better understanding of the industry. The results established the following productivity measures and general cost elements for the industry:

- SALARIES - all wages, salaries and fringe benefits paid to any employee of the company regardless of the position held.
- COMMUNICATIONS - cost for all communication linkages such as telephone, telex, courier and postage.

(1) Annex D

- MARKETING AND PROMOTION - costs directly associated with the promotion and selling of products, but does not include any payroll related costs.
- OFFICE AND ADMINISTRATION - costs excluded from other categories, such as rent, depreciation, office expenses, vehicle leases and operating costs, interest income and expense, etc.

Total billings were defined to be the gross amounts charged to customers for services provided and paid for directly and indirectly by the company. Net Sales represent total billings less disbursements made directly to third parties for items such as freight, duty and taxes, etc. on behalf of shippers.

The interfirm comparison study shows that the industry structure must support relatively high outlays of funds to obtain relatively moderate net sales. The ratio of total billings to net sales for forwarding is approximately 9 to 1. Customs brokerage is considerably higher with a 24 to 1 ratio. These cash outlays usually cover a period of 25 days. However, the time element can be considerably longer for some activities such as project work. The need for adequate financing is reflected in the average 1.7 ratio for current assets/current liabilities. During periods of local recession, firms with ratios of less than one often sustain themselves from the earnings of more profitable offices in other countries. The benefit of this type of support is not available to companies operating only in Canada.

Productivity measures used by the industry are sales or number of transactions per employee. An employee handles approximately 500 to 700 transactions per year. The average annual salary was about \$21 000 per year with minor differences among different types of companies. Net sales per employee averaged \$42 833 for forwarding operations and \$37 250 for customs brokerage.

A comparison of operational efficiencies of different sizes and types of firms shows the operating profit per net sales ratio ranged between 7.8 per cent and 11.5 per cent. A somewhat higher percentage for this ratio was found among forwarders with high levels of annual sales, particularly multinationals with international networks of offices. Small customs brokers with less than 100 employees reported a higher profit/net sales ratio than large firms. Overall, small domestic forwarders with low sales volumes are less profitable than large companies, despite lower office administration costs.

The interfirm comparison study did not examine the relative cost of transportation and traffic services for different size companies. A survey of user views⁽¹⁾ on shipping conferences found that small forwarders have a limited ability to negotiate economic rates. Consequently, they are at some disadvantage in competing with world scale companies, particularly when rates are set by the total volume of international traffic. It follows then that the availability of world scale companies are desirable with regard to efficiency for both the industry and shippers.

6.1 Investment

The forwarding industry is not capital intensive. Fixed assets are relatively small as indicated in ratios 16 and 19 of the interfirm comparison. Fixed assets/\$1 000 net sales are only \$88 or .9 per cent. The cost of fixed assets per employee averages \$3 564 or 15 per cent of the average salary costs.

There are almost no capital investments necessary to enter the business at this time. However, future demands for improved communication systems to interface with clients, carriers and governments are likely to require greater capital investments in computer communication and paperwork automation systems.

7. TECHNOLOGY

The industry has depended on skilled staff rather than any advanced technology. Increasing paperwork and communications requirements are starting to force companies to examine benefits that could be obtained from the application of computer technology. However, the introduction of computer automation/communications in this industry is complex because of the need to exchange documents and information between many parties involved in shipping transactions.

The internal application of computer technology is presently restricted to large forwarders and customs brokers in the industry due to relatively high software development costs which can amount to several million dollars. This cost impediment places such systems outside of the reach of medium and small companies.

(1) ^{_____}reference (1) Annex B.

There has been some activity among software houses to develop computer systems that can be sold to several forwarders. British Telecommunications, a government agency, underwrote the cost of developing an AC-PC-80 computer system at Heathrow for the control of air cargo inventories, documentation and customs clearance. Development and operating costs are being recovered from the airlines, customs brokers, forwarders and Customs authorities through an independent agency that operates the system.

While internal operations require unique computer applications designed for the industry, the majority of the sector's activities relate to the exchange of information with other businesses.

Many transportation companies, businesses, and government departments have unique computer systems. These systems are used for cargo and inventory controls, accounting, billings, and document preparation. Examples include the Canada Customs CEPACS system for automated import entries and clearances, ocean carrier computer systems to electronically transmit bills of lading and shipping documents between countries, the electronic transfer of funds by the banks through SWIFT; the computer on-line billing system (COBIS) for highway carriers, Air Canada's Air Cargo Control expediting system (ACCES), and the IATA air cargo agent, air cargo booking and billing system (CASS). In addition, there are computer data banks accessible to the public in the United States on transportation tariff rates, port information and other commercial intelligence. In Canada, customs brokers are able to process applications for import/export permits directly by linking their computers with the government system.

The recent introduction of micro-computers could provide the industry with a low cost way to inter-connect with computer systems developed by shippers, carriers and governments. This has already been done in the Travel Agency business. In order to do this, it may be necessary for the sector to encourage organizations that they deal with to provide micro-access to large scale computer systems.

8. ROLE OF GOVERNMENT

Unlike the situation in other countries, in Canada the industry is relatively free from any direct or indirect government controls. The government has neither intervened to control the sector, nor provided trade or industrial development incentives for it. Several associations represent the interest of the industry and maintain various levels of contact with government Departments.

Companies in the industry are members of one or more of the following associations: The Canadian Association of Customs Brokers (CACB); Canadian International Freight Forwarders Association (CIFFA) which is affiliated with the International Federation of Freight Forwarders Associations (FIATA); the Canadian Pool Car Operators Association (CPCOA); and the Canadian Warehousing Association (CWA). The International Air Transport Association (IATA), a carrier association, certifies air cargo agents on behalf of airlines. Of the 430 firms in the sector, there are 116 CIFFA members, 114 IATA air cargo agents, 265 CACB members and 26 CWA members.

8.1 Transportation Policy

International freight forwarders are confronted with conflicting regulatory policies in different countries. The efforts of developing economy nations to control a larger share of the international transportation market have resulted in national laws that favour national companies. Conversely, transportation deregulation initiatives of the United States aimed at promoting competition have opened new markets for forwarders in direct competition with carriers.

8.1.a Developing Economy Countries

The developing economy countries are using two United Nations Committee on Trade Development (UNCTAD) conventions as models for national legislation aimed at gaining a greater control over their national transportation industries and an increased share of the international transportation market.

The UNCTAD Multimodal Convention establishes a scheme for the settlement of damage claims for goods shipped in more than one mode of transportation. It recognizes a new entity called the multimodal transport operator (MTO). Under the convention, the MTO, acting as a principal for the delivery of goods, is directly liable to shippers for damage claims. Companies operating as MTO's have a higher liability for claims than carriers. When damage cannot be attributed to a specific mode, carriers have no liability at all. In order to operate as an MTO under these conditions, forwarders require risk insurance that permits them to pay MTO claims without going bankrupt. This situation raises regulatory questions on the mandatory need

for liability insurance or bonding. Subsequently, the convention recognizes the rights of countries to regulate the MTO.

The second convention, the code of conduct for liner conferences, sets cargo sharing agreements for the movement of goods on national flag ships.

Although Canada has not become a party to these agreements, national laws of countries supporting them are in fact putting many of their conditions into force. A forwarder contracting as a principal to deliver container shipments at a fixed price can be considered to be a MTO and subject to national laws modelled on the UNTAD conventions. These laws require multimodal shipments within a country to be handled by national MTO's and carriers. When a national flag vessel is not available to carry goods in accordance with the UNCTAD code of conduct, the laws of some countries require that alternate transportation be selected by a national forwarder. This situation may require Canadian cargo sharing agreements with other countries to cover freight forwarding operations.

8.1.b Europe

Forwarders in the United Kingdom are not regulated. They control 80 per cent of that country's international shipments. The industry has moved towards the voluntary registration of its members by the Institute of Freight Forwarders. Those registered must employ recognized professional staff, use standard trading terms, and comply with legislation for the filing of company accounts and returns.

In other European countries, forwarders are directly and indirectly controlled by their respective governments. Some countries licence forwarders, others require staffs to be certified as competent professionals by local Chambers of Commerce after completion of an apprenticeship training program. It should be borne in mind that Chambers of Commerce in Europe, unlike those in Canada, are government supported. Some forwarders are owned by their governments.

8.1.c United States

Forwarders in the United States are licensed as common-carriers under the jurisdiction of the Federal Maritime Commission (FMC), Interstate Commerce Commission (ICC), and Federal Aviation Administration (FAA). In order to receive ocean brokerage fees, forwarders must co-ordinate the delivery of cargoes to carriers, prepare bills of lading, collect and pay

transportation fees, and be bonded. United States legislation under deregulation has been amended to permit shippers to operate as forwarders. In the past, shippers were prohibited from doing this to prevent unethical rebates from carriers. A bill will be considered next year to remove ICC regulation of surface forwarders. Its objective is to "strengthen the freight forwarding industry and lead to more effective competition between forwarders and the trucking and rail industries". NVOCC's, held distinct from forwarders, are not licensed, but they must file tariffs with the FMC.

8.1.d Canada

Canada is one of the few countries in the world without any policies for the use of forwarders to promote its transportation and trade interests. Revenue Canada Customs and Excise regulations exist for the licensing of Customs Brokers, bonding of consolidators, and granting of sufferance and bonded warehousing rights. Highway regulations of the provinces of Québec, Ontario, Alberta and British Columbia license or control the operation of vehicles owned by forwarders in order to restrict the intercity movement of goods to highway common-carriers.

The emerging and somewhat confusing role of forwarders acting as either agents, principals, or NVOCC's, raises some legal questions for the industry. An agent under Canadian law cannot receive any unknown benefits from third parties in the conduct of business on behalf of clients. However, forwarders presenting themselves as agents often in fact act as principals or sometimes as NVOCC's thus deriving financial benefits from contracts with carriers. Their exact contractual liabilities to shippers which are inherent in current forwarder business practices are slowly being decided in Canadian courts. In Alberta, for example, a forwarder consolidating shipments was held liable as a common carrier (NVOCC).

The forwarding industry, through CIFFA, is responding to the changing business environment. As a result of: (a) a study funded by DRIE⁽¹⁾ on the forwarders' current liabilities for multimodal shipments, and (b) increasing suits from shippers, the industry created a new form of errors and omissions insurance. It is a preliminary form of MTO insurance for non-carriers. To help shippers distinguish between contracts for the services of a forwarding agent, principal, NVOCC or MTO, the industry is in the process of revising its standard trading conditions for service contracts. Changes now recognize the role of a forwarder as a principal rather than simply as an agent. In addition to the revision of its standard trading conditions, CIFFA is also considering voluntary bonding to demonstrate financial stability to clients.

(1) Reference (j) Annex B.

8.2 Trade Policy

The percentage of goods produced for export by small business is considerably less than the national average of 25 per cent⁽¹⁾. Companies with 1-99 employees export 4 per cent to 10 per cent of their production. Those with 100-500 employees exported 16 per cent to 17 per cent of their production. Considering that small businesses export 6 per cent (\$5 billion) of Canadian trade goods, a five percent increase of the sector's exports from 10-17 per cent to 15-22 per cent would generate over \$2 billion in new export sales. The use of freight forwarders by small business, and firms with low traffic volumes or limited knowledge about international shipping requirements, could improve their level of participation in Canadian export trade.

A study of the relationship between forwarders and small or medium-size manufacturers by J-E Denis⁽¹⁾ noted the usefulness of forwarders as specialized intermediaries in the marketing of Canadian exports.

The report concluded that:

- (a) it would be advisable to make small manufacturers more aware of forwarding industry capabilities,
- (b) public agencies should take the existence of forwarders into account in the formulation of trade strategies, and
- (c) large forwarders with strong international intelligence networks are most suitable to help exporters.

A number of options exist for the Government to assist the forwarding industry expand its role in Canadian trade. The CIDA industrial cooperation program has been used to train forwarders and establish new forwarding companies in Africa through joint ventures. The use of this program to improve aid delivery capabilities could also be used to reduce delivery costs of other industrial trade goods, and to establish new international distribution networks for forwarders.

An effective forwarding company must have a well established network of offices or stable agency agreements around the world. Although there are over 300 forwarders operating in Canada, in reality, there are less than 100 companies that have any significant distribution networks. With the exception of foreign-controlled multinationals, there are almost no world-scale Canadian-owned companies.

(1) Reference (k) Annex B.

The Program for Export Market Development (PEMD) has potential application as an industrial development tool for the forwarding industry. PEMD assists companies to develop new markets. It could be used to subsidize travel costs for forwarders to establish offices or agency agreements in new markets, build foreign distribution warehouses, support costs involved in bidding on logistics contracts for projects, and conduct trade promotion seminars. It has been suggested that forwarder participation in trade fairs and missions would provide needed expertise for manufacturers to quote delivered prices rather than the prices at the factory. Often transportation costs make or break a sale in competitive markets. Although some firms have received assistance under the program, there is a need for a clear eligibility policy for forwarders which can be applied in all DRIE offices.

8.4 Sector Specific Policies

There are no sector specific assistance programs directly available to this industry. Without designation by the Minister of Regional Industrial Expansion as an eligible sector for aid from the Industrial Regional Development Program (IRDP), the industry or its associations cannot receive assistance from this program. However, a number of other government programs are available to indirectly help the industry.

The Department of External Affairs Trade Facilitation Program is aimed at the simplification and automation of trade documentation procedures used by forwarders and customs brokers. Assistance to improve office automation is available to suppliers of computer equipment and software that are eligible for assistance under IRDP and the Office Automation Program. In order to encourage the development of applications specifically for forwarding it would be necessary to establish a DRIE policy on IRDP eligibility for the development of applications software for this sector.

Government procurement policies have been used as an industrial development tool for other Canadian industry sectors. Current policies for the procurement of forwarding services require Canadian representation at delivery points, and forwarders to take full responsibility for deliveries as a principal. It is estimated that only 6 per cent of revenues for the industry come from government contracts.

There does not appear to be any central point in the federal government for forwarders to solicit business. Sourcing decisions are delegated throughout the government to traffic and program managers. This makes it very expensive for forwarders to market their services, particularly when government officers frequently change positions. Further to this, forwarders without foreign offices may have difficulty in meeting foreign representation requirements. It is claimed that current

government policies that favour Canadian carriers and restrict the use of consolidations limit the ability of forwarders to provide transportation at lower rates than that which is currently charged to the government. A review of current procurement policies and practices would be necessary, if they are chosen as a policy instrument for the industrial development of the Canadian freight forwarding industry.

The industry is also affected by transportation and customs policies such as access to on-airport facilities, and the lack of competition on rental rates among holders of sufferance warehouse rights.

9. CONCLUSIONS

9.1 Summary

The efficient marketing of freight forwarding services requires world scale companies. However, very few of these companies exist in Canada. The majority of firms in the Canadian industry are small regional businesses with limited capabilities. Canadian international distribution networks appear to be limited in size and stability. The full potential of the industry has not yet been reached and its services are not being used effectively by Canadian shippers. The ability of a small number of foreign controlled companies to maintain a 40 per cent share of the Canadian market with offices operated and staffed in relatively the same manner and with the same efficiency as the rest of the industry leads one to the conclusion that their success is primarily due to shipper confidence in the capabilities of their world business intelligence and distribution networks.

The greatest benefit to shippers would be derived from government assistance to improve the shipper's recognition of the capabilities of this industry. This could encompass assistance for the marketing of services, training and expansion of distribution networks, or other initiatives suggested by the industry, as well as taking into account the existence of forwarders in the formulation of government trade strategies and policies.

In order to obtain a better understanding of issues raised in this paper, further information should be gathered on:

- (a) the existing and potential market for the industry and its capabilities to serve the market with currently available levels of service, distribution networks and industry structure; and,
- (b) the industrial development policies of other countries for their forwarding industries with a view to establishing similar strategies for the Canadian industry that support Canadian trade objectives.

9.2 Industry Outlook

The Canadian freight forwarding industry is experiencing major changes in its structure and markets. These changes are being brought about by shipper demands for multimodal services and economic pressures from the recent recession.

It is recognized in the industry that agent commissions or fees are insufficient to maintain a business. In search of new sources of revenues, forwarders are expanding their services which in turn is changing their role from shipper's agents to principal or transport contractors. The diversification of services among forwarders and carriers has progressed to a point where the distinction between forwarders, couriers, NVOCC's, and carriers is being blurred.

In recognition of this situation with its new set of liabilities, the industry is revising its contract terms (standard trading conditions) to clearly identify to clients services offered as principals rather than as agents. The new standard trading terms are an attempt to help shippers understand the forwarder's obligations through private law contracts rather than regulations. This excludes services where forwarders could be considered to be common-carriers through the performance of NVOCC services.

The industry has noted its desire to remain free from regulatory controls in order to maintain flexibility in responding to shipper requirements. In light of the current developments (deregulation, changes to multimodal and international transportation laws) the industry will need to participate actively in the government policy formulation process in order to protect its interests.

It is expected that the trend towards the growth of large diversified transportation and traffic service companies will lead to a further rationalization of the industry. The number of small local companies solely engaged in either forwarding or customs brokerage is slowly being absorbed into larger organizations that provide both forwarding and customs brokerage services, as well as traffic and/or transportation services. Due to the need for a worldwide network of offices, it is likely that the Canadian market will continue to be dominated by multinational companies.

9.3 Key Problem Areas

The key problems facing the industry are summarized as follows:

9.3.a Lack of Recognition

The single most important constraint on the industry is the lack of recognition of the industry's capabilities by shippers. This limitation may be due to the lack of knowledge of what forwarders do, lack of confidence in agency scheme networks, and minimal entry requirements that encourage "fly-by-night" operators, forwarding companies set-up primarily to support parent shippers and industry sales practices that do not explicitly describe services being offered. As a result, perceptions of the industry among some shippers may be influenced by dealings with less competent companies.

9.3.b Accreditation

The absence of any professional or financial barriers for entry into the forwarding business results in a wide range of service capabilities within it. This situation, combined with companies offering forwarding services, as agents, principals or even NVOCC's, limits the ability of an inexperienced shipper to select a forwarder intelligently. Prices set by forwarders for consolidation services depend in some cases on the shippers knowledge and ability to bargain. With a profit based on the spread between the price of transportation services bought and sold to clients, cases can arise where the shipper's lack of knowledge may result in transportation costs that exceed those available directly from the carriers. More reputable forwarders who ship consolidations on a regular basis, often publish tariffs which permits comparative pricing. Some shippers have resolved this conflict of interest by paying a fixed commission on transportation bills received. This situation raises ethical questions on proper disclosure to clients by forwarders representing themselves as agents or principals. In order to promote professionalism in the industry, CIFFA has established a code of ethics for its members. It is recognized in the industry that some form of accreditation with minimum qualifications for forwarders is desirable for both the industry and shippers.

9.3.c Distribution Capabilities

There is a wide range of distribution capabilities among different companies in the industry. Canadian shippers have access to multinational companies with long-established networks of offices around the world. Often small forwarders will use large multinational forwarders to tranship Canadian goods from points in Europe or the Far East to other world regions such as francophone Africa, Asia, etc. Other Canadian forwarders maintain their networks through agency agreements. Agreements vary from formal written contracts or joint ventures with the forwarders residing in other countries to a casual telex requesting break-bulk services from a forwarder listed in a directory.

These differences present a number of benefits and perils for shippers. While an international network of multinational offices serves the majority of Canadian trade, it may not be economical to maintain an office for marginal traffic unique to Canadian trade. The agency distribution network system can be used just as effectively; however, shippers may not have confidence or even be aware of the capabilities of forwarders operating under agency schemes. This is unfortunate in that the agency system has been used to establish transportation linkages for trade unique to Canada. An example is the recent agency agreement between Livingston International of Canada and Synotrans of the People's Republic of China. On the other hand, shippers using forwarders who depend on directories to select break-bulk agents may not be well served.

A drawback for Canadian forwarders operating under the agency scheme is the instability of the business relationship. They can be compared to sales agents who often lose business after a critical volume has been established. In the case of forwarders, this occurs after sufficient volumes of traffic develop to justify the establishment of a foreign office. This situation affects the ability of Canadian forwarders to maintain or expand international distribution networks. In some countries national laws have been introduced to control this practice through mandatory requirements for shipments to be handled by companies owned by their citizens.

The full extent of Canadian international distribution networks is not known at this time. In order to develop a more comprehensive understanding of the sector's capabilities and promote contacts with shippers, a directory of freight forwarders and customs brokers is being added to the DRIE Business Opportunity Sourcing System (BOSS). Information gathered by BOSS in 1985 will permit a more detailed examination of the sector which could lead to the development of policy recommendations aimed at the improvement of current "physical distribution capabilities".

9.3.d Training

There are severe limitations on the professional development of freight forwarders in Canada. To date, multinationals have trained the majority of Canadian technicians and managers due to the absence of formally recognized education or apprenticeship programs. The lack of credentials has limited job rotation experience for Canadians, resulting in the loss of opportunities to gain knowledge and experience.

This limited recognition of professional qualifications in Canada is in direct contrast with long established apprenticeship and certification schemes in Europe run by the national Chambers of Commerce in co-operation with their governments. CAPDM and CIFFA have tried to encourage community colleges and universities to offer courses with little success.

9.3.e Associations

Associations provide a forum for companies to discuss and resolve problems or pursue interests that benefit the industry as a whole. Permanent associations exist for this purpose for customs brokers and public warehousing companies. However, forwarders lack sufficient finances to maintain a full time secretariat for CIFFA. As a result, association resources available for the freight forwarding marketing, government liaison, or industrial development are limited. The industry is working towards the achievement of goals within the limits of its resources, however, Government assistance could help the industry reach these goals faster.

9.4 Opportunities

Although forwarders do not appear to be capable of directly influencing general export or import activity, they provide shippers with a distribution tool that could be used more effectively to:

- (a) increase the current levels of small business export activity;
- (b) expand into developing country markets or penetrate new markets; and,
- (c) increase the domestic distribution of Canadian goods particularly in respect to import replacements.

Within the industry, opportunities exist to improve its operational efficiencies through the development of new computer documentation and communication systems, and expansion of current international distribution networks.

ANNEXES

SOURCES OF DATA AND REFERENCES

- (a) DRIE list of Canadian head offices and branches for customs brokers and freight forwarders.
- (b) Interfirm Comparison Study of International Freight Forwarders; 1984 DRIE study.
- (c) Dunn & Bradstreet information.
- (d) Exports by Mode of Transportation: Statistics Canada Publication 65-202.
- (e) Destination of Shipments of Manufacturers, 1979: Statistics Canada Publication 31-530.
- (f) Company annual reports.
- (g) Freight Forwarding in Canada; S. Wing, Transport Canada, 1983.
- (h) The Role of International Freight Forwarders in Enhancement of Canadian Export Trade; 1984 Transport Canada Report by E.M. Ludwick & Associates.
- (i) Multimodal Business Practices of Canadian Traffic Service Companies; 1983 Report for DRIE by R. Bullock & Associates.
- (j) The Multimodal Convention: The Effect on Canadian Shipper and Traffic Service Industry Trade Procedures; 1983 Report for DRIE by P. Jones, McMillan-Binch, Barristers & Solicitors.
- (k) The International Freight Forwarders and their Relationship with Small and Medium-Sized Manufacturing Exporters; 1983 Report to Conference de l'Association des Sciences by J.E. Denis.
- (l) Shipping Conferences: Survey of User Views; 1981 Report for Department of Consumer and Corporate Affairs by E.M. Ludwick & Associates.
- (m) The Freight Forwarding Industry in Ontario: Phase I - State of the Art; 1982 Ministry of Transportation & Communications.
- (n) Revenue Canada - Customs and Excise Annual Report, 1983.

ANNEX B

TYPES OF TRAFFIC SERVICE BUSINESS ORGANIZATIONS

<u>TYPE OF COMPANY OR ORGANIZATION</u>	<u>SIC #</u>	<u>SERVICE FUNCTION</u>
1. Bank	7021	Financial
2. Board of Trade		Documentation
3. Insurance - Underwriter	7339	Insurance
4. Insurance - Brokers	7611	Insurance
5. Insurance - Agent	7611	Insurance
6. Surveyor (Cargo/Ship)	7759	Inspection
7. Warehouse (Public/Bonded/Sufferance)	4791	Storage
8. Wharfinger	4522	Storage
9. Port Authority	4522	Storage
10. Stevedore	4551	Materials Handling
11. Export Packager	4599	Packing
12. Cartage Company	4842	Transportation
13. Courier	4842	Forwarding/Transportation
14. Postal Service	4841	Forwarding
15. Piggyback Operator	4561	Forwarding/Transportation
16. International Freight Forwarder	4592	Forwarding
17. Domestic Freight Forwarder	4592	Forwarding
18. Pool Car Operator	4022	Forwarding
19. Shippers Association	9821	Forwarding
20. Customs Broker	7794	Customs Clearance
21. Charter Agency	4541	Transportation Reservation
22. Steamship Agency	4541	Transportation Reservation
23. IATA Air Cargo Agent	4512	Transportation Reservation
24. Leasing Company (Transportation Equipment)	4592	Leasing
25. Consultants (Logistics/Customs)	7771	Consulting

FREIGHT FORWARDING AND CUSTOMS BROKERAGE SERVICES

1. Arrange or provide shipment handling requirements for:
 - packing and crating
 - marking
 - inspection
 - storage
 - loading or unloading
2. Provide documentation services to:
 - prepare shipping and/or customs documents
 - translate documents
 - certify documents
 - transmit documents
 - obtain permits, licenses and certificates
3. Provide financial assistance services to:
 - negotiate letters of credit
 - arrange collections
 - place insurance
 - file cargo insurance claims
4. Prepay and collect freight charges
5. Provide, as customs brokers, services for:
 - clearance of goods through customs
 - assistance for
 - classifying goods for customs entries
 - obtaining value for duty rulings
 - obtaining class on kind rulings
 - duty drawback
 - duty remission
 - prepaying duties and taxes
6. Provide consulting services for:
 - advisory services on
 - foreign requirements
 - transportation
 - government regulations
 - customs procedures
 - project management, including Canadian representation foreign sites
7. Provide transportation services for:
 - selection of routings and carriers
 - negotiation of rates
 - bookings or reservations of transportation space
 - securing charters
 - freight consolidation and break-bulk services
 - local or inland delivery of goods
 - tracing
 - leasing of equipment

Services offered may be specialized as to:

- (1) Types of commodities handled
- (2) Geographic specializations, and/or
- (3) Size of shipments.

ANNEX D

1983 INTERFIRM COMPARISON STUDY

GENERAL AVERAGE

PERFORMANCE AND PRODUCTIVITY RATIOS

INTERNATIONAL FREIGHT FORWARDERS INTERFIRM COMPARISON

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PART I - ORGANIZATION OF THE PROJECT

1. Objectives and Scope of the Study

The interfirm comparison program is sponsored and implemented by the federal Department of Regional Industrial Expansion to help companies improve their productivity and profitability by comparing operating performance and similar operations. All firms included in a comparison are from the same industry sector, (international freight forwarding in this case), although there are often significant differences between companies in many operating areas that to some extent impact on their comparability. In spite of these problems, the comparison does help point out the relative strengths and weaknesses of operating divisions within individual freight forwarding companies.

There are two main objectives of the interfirm comparison program. The first is to enable firms to compare their productivity and profitability with those of their competitors, and become aware of existing differences. The most important operating ratios are calculated and compared with those of other firms in the industry which have participated in the comparison. Where necessary, results are viewed on the basis of types of operations to provide a higher degree of confidence in the resulting conclusions.

Ratios have been selected that will provide a fair measurement of the performance in those areas having the most influence on profitability. This approach thereby ensures that the program will give a quantitative, analytical tool which allows for a better understanding of not only strengths and weaknesses in operations, but also the critical points involved in improving productivity.

This interfirm comparison was conducted for the international freight forwarding industry as a result of a request from the Transportation Services Division, Service Industries Branch, of the Department of Regional Industrial Expansion for development of a body of data concerning this industry sector. It has been enthusiastically endorsed by many companies in the industry.

This report contains the results of an interfirm comparison conducted during the spring of 1984 concerning the 1983 operations of ten international freight forwarding and customs brokerage companies. Where possible, the data used in this comparison represents the results of the participant's fiscal years ending on or close to December 31, 1983. In those cases where the fiscal period was significantly different, the information was closely reviewed to ensure its validity and representativeness with respect to the 1983 operations. Where necessary, appropriate adjustments have been applied to the data to maximize comparability between participants.

Participating firms were invited by the Department of Regional Industrial Expansion in a manner that provided a good cross section of the industry in terms of geographic location, operating methods employed, types of services provided and relative size. Although the results of an industry study based on voluntary participation of firms are not always as representative of the industry as those based on a scientifically selected sample, in practice, the results of this study are felt to be fairly representative of the international freight forwarding industry in Canada.

This report is the culmination of a comparison that has satisfied the basic objectives as outlined earlier, and presumably will considerably enhance the amount of information available with respect to this industry. Relatively few problems arose in obtaining truly comparative data, however in some cases it was simply not possible to eliminate certain variables. In these instances the unusual items were clearly identified for the participants to ensure no erroneous conclusions would be derived from the data provided.

2. Data Sources

During interviews with officers of each company, a considerable amount of general information was gathered along with the financial and other results required for the comparison. This data was generally obtained in the course of a single interview, lasting from four to seven hours and attended by one or more company officers such as the president, treasurer or general manager. Financial data was obtained from the company's financial statements, general ledger, monthly statements, production reports, appraisal reports, payroll records and from other documents considered necessary for purposes of the comparison.

Such data as the number of transactions, office floor area and employee numbers were obtained from a variety of sources within the participating firm. In addition, tours were made of at least one of each participants' many locations to physically compare the procedures in use and identify significant differences between companies that may have had an impact on the ratio results.

3. Basis of the Comparison

The ratios selected for purposes of this comparison are shown on the next page where they are conveniently grouped for greater clarity (Table 1). These ratios were not chosen at random, but have been established and developed over several years using sound financial and economic principles, and form the basic methodology of the project. To ensure there would be no misunderstanding as to the meaning of terms used in the ratios, clear definitions were developed and are summarized on Table 2.

These ratios form a hierarchy of financial results, as shown in Diagram 1 on page 6, (Pyramid of Ratios). Ratio 1 (operating profit on net sales) is of prime importance because it reflects a firm's profit-making capacity and, together with other ratio results, helps indicate whether efficient use is being made of available resources.

Ratio 1 is a direct measure of the profit margin on net sales, and dependent completely on ratio 3, total operating costs. Operating profit to gross sales can also be calculated by multiplying ratio 1 by ratio 2, net sales to total billings. Ratios 4 to 7 set out the component costs that make up ratio 3. Office and administration costs (ratio 7) contain all those cost elements not found in ratios 4, 5 or 6. The major cost included therein was rent, which was the largest single factor in every case. The other costs included in ratio 7 were not unusual in nature or size.

The level of operating profit in relation to the operating assets employed is shown by ratio 18, while ratio 14 reviews the asset utilization rate. (Operating assets/\$1000 sales).

TABLE 1

INTERFIRM COMPARISON OF INTERNATIONAL FREIGHT FORWARDERS
SELECTED MANAGEMENT RATIOS

<u>Profitability and Cost Control Ratios</u>	<u>Units</u>
1. Operating profit/net sales	%
2. Net sales/total billings	%
3. Total operating costs/net sales	%
4. Total salaries/net sales	%
5. Communication costs/net sales	%
6. Marketing and promotion/net sales	%
7. Office and administration/net sales	%
 <u>Productivity and Supplementary Ratios</u>	
8. Sales increase (decrease) over prior year	%
9. Net sales/total employees	\$
10. No. transactions/total employees	No.
11. Net sales/no. transactions	\$
11a. Total operating costs/no. transactions	\$
11b. Operating profit/no. transactions	\$
12. Labour costs/no. employees	\$
13. Operating profit/no. employees	\$

<u>Asset Utilization and Financial Ratios</u>	<u>Units</u>
14. Operating assets/\$1 000 sales	\$
14a. Operating assets/no. transactions	\$
15. No. days billings outstanding	No.
16. Fixed assets/\$1 000 sales	\$
17. Total billings/operating assets	Times
18. Operating profit/operating assets	%
19. Fixed assets/no. employees	\$
20. Net sales/sq. ft. office area	\$
21. Net sales/\$1 000 office rent	\$
22. Current assets/current liabilities	Times

TABLE 2
INTERFIRM COMPARISON OF INTERNATIONAL FREIGHT FORWARDERS
DEFINITIONS

TOTAL BILLINGS - is the turnover, which represents the gross amount charged to customers for services provided and paid for directly and indirectly by the company.

NO. TRANSACTIONS - are the total number of business transactions that were entered into during the year to obtain the gross sales.

NET SALES - represents the total billings or turnover net of those disbursements made directly to third parties for items such as freight, duty, taxes, etc.

TOTAL SALARIES - includes all wages, salaries and fringe benefits paid to any employee of the company regardless of the position held. As a result there are no payroll related costs in any of the other cost categories.

COMMUNICATION - is the total cost for all communication linkages such as telephone, telex, courier and postage.

MARKETING AND PROMOTION - are those costs directly associated with the promotion and selling of products, but do not include any payroll related costs.

OFFICE & ADMINISTRATION - covers all the cost areas excluded from the other categories, and includes costs such as rent, depreciation, office expenses, vehicle leases and operating costs, interest income and expense etc.

TOTAL EMPLOYEES - is the average of all employees engaged in the four operating areas covered by this comparison, but relates directly to the payroll costs included in Total Salaries.

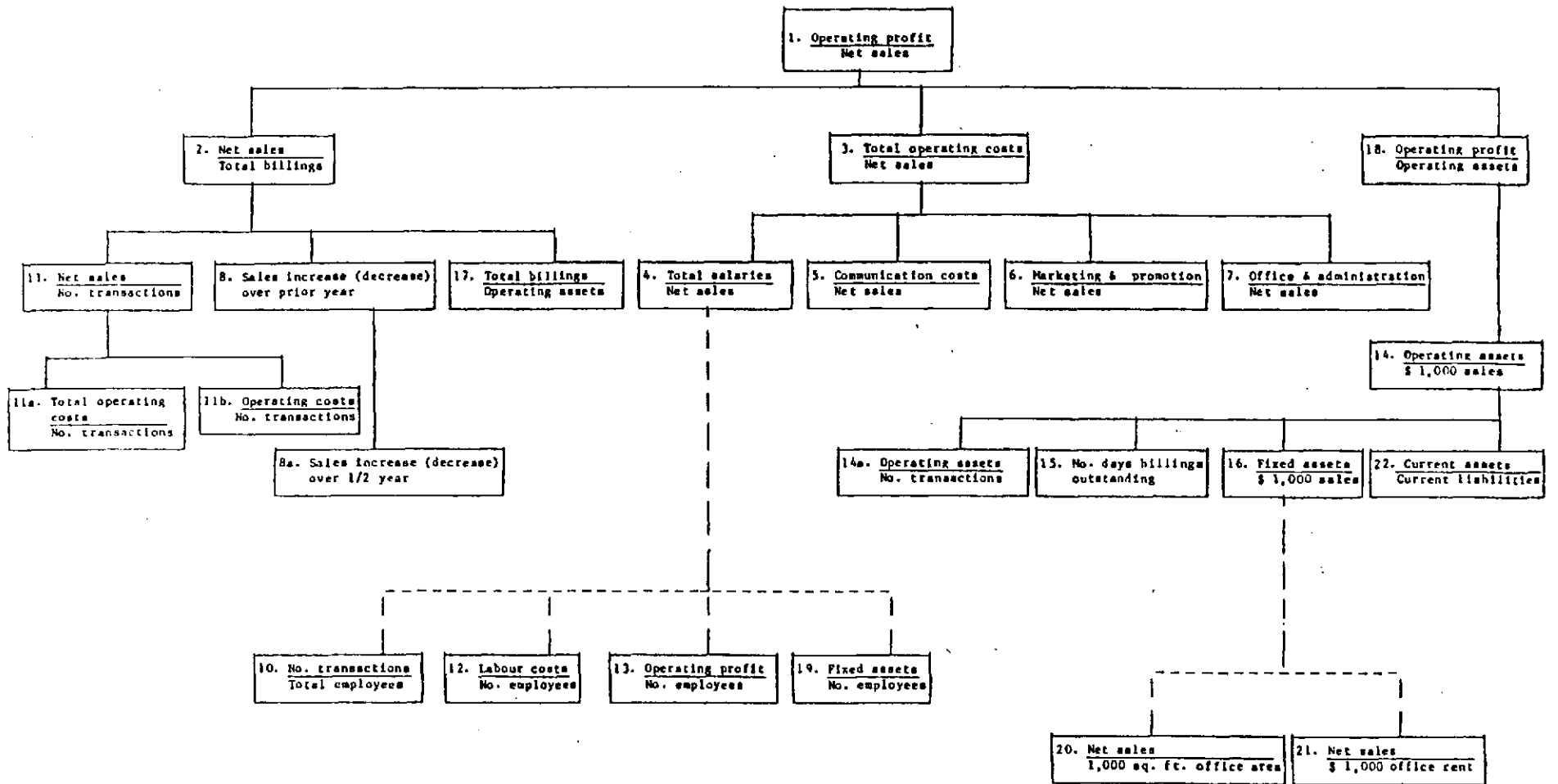
OPERATING ASSETS - include current and fixed assets that are available to carry on the business during the year, and exclude assets that are not held for the purpose of operating the four key operations that are the subject of this comparison. Other assets that are excluded from the comparison are cash, investments, certain excess assets (i.e. land held for long-term development), and intangibles such as goodwill.

OPERATING PROFIT - represents net profit before income taxes and extraordinary items.

FIXED ASSETS - reflect the total fixed assets at net book value used in freight forwarding, customs brokerage, and projects. For warehousing operations all assets other than buildings have been included. Since most warehousing operations utilize leased premises, all companies were converted to a rental basis.

OFFICE AREA - is the total square footage utilized at all locations for office operations.

DIAGRAM 1: PYRAMID OF RATIOS
INTERNATIONAL FREIGHT FORWARDERS



Every effort has been made to render the data provided by the participating freight forwarders as comparable as possible. This could only be accomplished by making certain key adjustments to some of the information, and it has resulted in the compilation of data that is reasonably comparable and valid for purposes of this study.

One of the key objectives of this study is to develop meaningful operating performance measurements. As a result, many of the ratios include non-financial factors in an attempt to look further than sales and profit relationships as a key to corporate performance.

Because this industry is not reliant on capital equipment in most operating areas other than warehousing, little emphasis has been placed on the relationship that may exist between fixed asset levels and profitability or productivity. The impact of the mix and age of fixed assets has been minimized by using the asset and depreciation levels recorded by the respective companies, without restatement for price level changes.

For purposes of uniformity, all warehouses have been treated as if they were rented from third parties. As a result, the asset sensitive ratios do not include any warehouse buildings.

The primary basis of measurement in this comparison is the ratio of operating profit to net sales. The determination of operating profit has included all of the expense factors normally considered as part of the freight forwarding operation, including net interest expense.

Many companies did not have interest income or expense, and in those cases where it did exist it was generally not a significant cost factor. Since both interest income and expense are integral to many aspects of the freight forwarding business, they have therefore been left in the data base provided by the companies and, to ensure uniformity, have been included in office and administration operating costs.

Although there are many aspects to the freight forwarding business, this interfirm comparison has considered the four key areas which are:

- international freight forwarding
- customs brokerage
- warehousing
- projects

Many of the participating companies are involved in a number of other areas. Care was taken to ensure that the revenue and expenses relating to these and other operating areas not considered were excluded from the comparison results. As a result, operating profit represents the total revenue generated from the operating assets used in the normal operations of these four phases of the international freight forwarding business, less the related expenses and before income taxes.

The ratio categories used for profitability measurement and operating expenses were selected to conform to those in general use throughout the industry, and the non-financial components were established by discussion with the companies involved, and reflect those aspects that were considered to be of greatest importance. In some cases practical difficulties limited the amount of data that could be obtained, (e.g. tonnage), and the ratios selected may therefore not cover all of the measurements used by some firms in the industry. In the warehousing and project areas the number of companies was not sufficient to allow compilation of meaningful results, so ratio tables are therefore not provided in these operating areas.

The vast majority of participants expressed considerable enthusiasm for participating in such a comparison again in the near future. As a result of this response, the firms have requested a repeat comparison be undertaken for the year 1985. In order to obtain a broader coverage of the industry it would be preferable to enlarge the number of companies in the study. While no commitment was made, they were all provided with enough information to permit compilation of their 1984 results in the same format. In this way they would be able to accurately track their current results and determine if there has been any performance change over the prior year. Information provided to the participant included a copy of the statement of data used, working papers (where necessary), and a reconciliation to their audited financial statements.

PART II CHARACTERISTICS OF THE PARTICIPANTS

An Industry Overview

Before a serious attempt can be made to study any aspect of the international freight forwarding business, it is imperative that clear, definitive parameters be established. This is a direct result of the very extensive range of services provided by companies engaged in this business, inconsistencies in product mix between companies and within the same company over time, and the very pragmatic approach to problem solving adopted by most forwarders.

In 1983 the federal Department of Regional Industrial Expansion made a serious attempt to codify the many services provided in this industry sector, and compiled a list of several distinct and clearly identifiable functions including the following:

1. Provision of Transportation
 - freight consolidation
 - part or full charters
 - reserve or book transport space
 - select carriers
 - break bulk distribution
 - local delivery

2. Documentation
 - prepare shipping documents

- obtain certificates, licences, permits
 - complete import/export documents
 - government formalities
3. Finance
- credit formalities
 - insurance
 - claims settlement
 - payment of shipping fees
4. Materials Handling
- crate/package
 - mark/label
 - count/inspect/weigh
 - store
 - inventory control
 - load/unload/store
5. Customs Clearance
- arrange
6. Consulting
- general
 - project management
 - transportation contractor

The international freight forwarding business activity is directly related to the economic climate. All firms are affected by world conditions, however, those with international networks of offices can often offset the economic effects of slow-downs in some countries by revenues derived from countries not affected by these regional conditions. When the retail sector of the economy is strong, (as is currently the case), there is a great deal of import activity in the industry. When Canadian manufacturing rises there is an increase in import services for capital goods and raw materials, and export freight demand will rise in direct proportion to the ability of industry to develop export sales. The reverse is also true, and one or more of the key players in the industry will be directly affected by short-term changes in any area of the Canadian economy.

In addition to being very knowledgeable about international freight, most of the companies possess a great deal of knowledge with respect to products and markets. Virtually every company included in this comparison indicated a willingness to assist companies in sourcing raw materials and identifying export market areas, and all noted that very few Canadian customers ask for this assistance. This was of particular concern, because such service is regularly provided to European customers.

There are approximately 430 customs brokerage and/or international freight forwarding companies in Canada. Of these, about 110 specialize in customs brokerage, and about 160 restrict services to freight

forwarding, and the remainder offer both services. Companies are prepared to offer services in most product areas subject to market demand, and the level of activity in any operating area is more a factor of the type of work that is available rather than a desire to restrict the product areas addressed. In other words, the business is very competitive and most companies approach the market very pragmatically.

PART III - RESULTS OF THE COMPARISON

1. Ratio Tables

It appears that the ten international freight forwarders in the comparison were reasonably comparable. Based on feedback from the participants, the ratio results seem to be fairly meaningful, and should be quite representative of the overall industry, although significant variations from the average were present in most areas. The average results are shown on the tables on the following pages of this report. While they are not necessarily representative, they do suggest the market conditions present in 1983.

Table 3 presents the ratio results on a consolidated basis, but when the performance results were reviewed on a divisional basis some very interesting differences were noted. Table 4 sets out the averages for the freight forwarding and customs brokers operating divisions for ratios 1 to 13.

TABLE 3

INTERFIRM COMPARISON OF INTERNATIONAL FREIGHT FORWARDERS

1983 Financial Year
Consolidated Operations

<u>Performance Ratios</u>	<u>Average Units</u>	
<u>Profitability and Cost Control Ratios</u>		
1. Operating profit/net sales	9.7	%
2. Net sales/total billings	9.9	%
3. Total operating costs/net sales	90.3	%
4. Total salaries/net sales	51.1	%
5. Communication costs/net sales	5.2	%
6. Marketing and promotion/net sales	3.2	%
7. Office and administration/net sales	30.8	%
<u>Productivity and Supplementary Ratios</u>		
8. Sales increase (decrease) over prior year	22.7	%
9. Net sales/total employees	47 434	\$
10. No. transactions/total employees	712	no.
11. Net sales/no. transactions	94	\$
11a. Total operating costs/no. transactions	87	\$
11b. Operating profit/no. transactions	7	\$
12. Labour costs/no. employees	23 117	\$
13. Operating profit/no. employees	4 880	\$
<u>Asset Utilization and Financial Ratios</u>		
14. Operating assets/\$1 000 sales	941	\$
14a. Operating assets/no. transactions	105	\$
15. No. days billings outstanding	25	No.
16. Fixed assets/\$1 000 sales	88	\$
17. Total billings/operating assets	14.1	Times
18. Operating profit/operating assets	16.9	%
19. Fixed assets/no. employees	3 564	\$
20. Net sales/sq. ft. office area	265	\$
21. Net sales/\$1 000 office rent	33 324	\$
22. Current assets/current liabilities	1.7	Times

TABLE 4

INTERFIRM COMPARISON OF INTERNATIONAL FREIGHT FORWARDERS

1983 Financial Year

<u>Performance Ratios</u>	<u>Freight Forwarding Average</u>	<u>Customs Brokerage Average</u>	<u>Units</u>
<u>Profitability & Cost Control Ratios</u>			
1. Operating Profit/net sales	9.0	9.9	%
2. Net sales/total billings	10.7	4.2	%
3. Total operating costs/net sales	91.0	90.1	%
4. Total salaries/net sales	51.9	53.8	%
5. Communication costs/net sales	6.8	5.0	%
6. Marketing & promotion/net sales	2.4	2.6	%
7. Office & administration/net sales	29.9	28.6	%
<u>Productivity & Supplementary Ratios</u>			
8. Sales increase(decrease) over prior year	26.2	71.5	%
9. Net sales/total employees	42 833	37 250	\$
10. No. transactions/total employees	638	756	No.
11. Net sales/no. transactions	82	58	\$
11a. Total operating costs/no. transactions	69	54	\$
11b. Operating profit/no. transactions	8	4.30	\$
12. Labour costs/no. employees	21 126	20 380	\$
13. Operating profit/no. employees	3 764	4 444	\$

2. Operating Profit

The primary ratio (ratio 1) calculates the level of profitability in relation to net sales, and is an effective measure of overall economic performance in the industry.

In terms of the actual rate of return as measured by ratio 1, operating profit on net sales, the range was quite broad when viewed on a functional basis.

Ratio 1

	<u>Average</u>
Consolidated	9.7%
Freight forwarding	9.0%
Customs brokerage	9.9%
Warehousing	13.4%
Projects	15.8%

There is a wide range of results for the rate of return on net sales as indicated by these findings.

Ratio 1 should be examined in regards to total billings required to generate sufficient sales revenues to cover operating costs. Ratio 2, net sales/total billings shows the relative contribution to sales revenues generated from total billings for different types of services.

<u>Ratio 2</u>		<u>Average</u>
Consolidated	Con	9.9%
Freight forwarding	FF	10.7%
Customs brokerage	CB	4.2%
Warehousing	Wse	13.4%
Projects	Pjt	8.8%

3. Operating Costs

The performance level recorded by any participant for operating profit (ratio 1) is a direct result of the company's ability to generate sales and contain operating costs as shown by ratio 3. A review of the components of operating costs in relation to net sales are shown by ratios 4 to 7, and the average results are as follows:

<u>Ratio</u>	<u>Consoli- dated</u>	<u>For- warding</u>	<u>Customs</u>
4. Total salaries	51.1%	51.9%	53.8%
5. Communication	5.2%	6.8%	5.0%
6. Marketing and promotion	3.2%	2.4%	2.6%
7. Office and administration	<u>30.8%</u>	<u>29.9%</u>	<u>28.6%</u>
3. Total operating Costs	<u>90.3%</u>	<u>91.0%</u>	<u>90.0%</u>

4. Productivity

In order to relate profitability to productivity performance, the relationships between sales, costs and employee levels to the numbers of transactions handled were computed. Ratio 9 indicates net sales per employee, and the fact that there was a very broad performance range shown by the participants reflects a wide product mix. A better indication of this relative performance is obtained by reference to the supplementary data (Table 4) for the two major divisions.

<u>Ratio 9: Net sales/total employees</u>	<u>Average</u>
Freight forwarding	42 883
Customs brokers	37 250

In both cases there still exists a difference in product mix that will impact on the results, and this measurement is most relevant within a company from one period to the next. A somewhat different and very useful relationship that minimizes the impact of product mix is reflected by ratio 10, number of transactions per employee. The total group average was 712 compared to the freight forwarding and customs brokers division averages of 638 and 756 respectively.

Ratio 12 shows the total labour cost per employee, and comparison of this relative cost level to the productivity indicators discussed earlier suggests there is no relationship between salary levels and overall performance. Salary rates appear to be a factor of market demand that vary primarily in relation to geographic location.

Profitability on a per employee basis is shown by ratio 13, and the results varied widely to somewhat confirm the general relationship between productivity, profitability, and labour costs. Those companies with the better ratio 1 performance generally showed better results for ratio 13.

When the elements of profitability (net sales and operating costs) are considered on a transaction basis, the differences in the size of transactions between participants is readily apparent. This is especially true in the international freight forwarding area, where the base data is more homogeneous and best lends itself to comparison. The results on a per transaction basis as shown by ratios 11, 11a and 11b were as follows on the basis of consolidated operations:

<u>Ratio (per transaction)</u>	<u>Average</u>
11. Net sales	94
11a. Total operating costs	87
11b. Operating profit	7

5. Asset Utilization

It has earlier been noted that fixed assets are of minor consequence in this industry sector. The level of total operating assets required is significant nevertheless, because of the level of accounts receivable that must be maintained.

Ratio 14 compares total operating assets/\$1 000 sales levels, a per transaction relationship as shown by ratio 14a and the relative age of the major asset, accounts receivable, is computed by ratio 15. There are some fixed assets in the total operating assets used for ratio 14, and they are designated by ratio 16, fixed assets/net sales.

The level of operating assets varied widely per \$1 000 of net sales, but the fixed asset component was relatively minor with an average of only \$88 per \$1 000 net sales. Ratio 19 reviews the

relationship between fixed assets and employees, and further suggests that fixed assets are of minor importance. The average level investment per employee was only \$3 564.

While the relationship between asset and sales levels provides an indication of relative asset utilization rates, this information is of limited usefulness in a service industry such as international freight forwarding. The objective is profit, and ratio 18 computes operating profit as a percent of operating assets.

Most of the variance in company results for ratio 14 related to accounts receivable levels, a factor that is reflected directly in their performance for ratio 15. On a consolidated basis, the age of accounts receivable averaged 25 days even though credit terms extended by participants rarely exceed 30 days and generally average 15 days.

Of course, for all participants there is a direct relationship between the rate of return on assets (ratio 18), and the overall performance as measured by ratio 1. Those companies that were best able to utilize their operating assets obtained higher returns on assets employed (ratio 18) than they did on sales.

Because accounts receivable is so very significant, a relative measure of the health of this industry would include a review of liquidity. Unfortunately, separate accounts receivable data by type of operations was not available; and the only meaningful ratio that could be developed as a measure of working capital was ratio 22, current assets/current liabilities. The results varied widely from 1 times to a high of 3.9 times, and the average was 1.7 times.

6. General Observations

With the exception of the warehousing function, the industry is not capital intensive, but is heavily reliant on labour. Even those companies that are highly automated are very susceptible to labour relations problems. Consequently, a good labour productivity level is a basic concern if profitability is to be maintained.

Unfortunately the level of labour productivity cannot be altered by a company in the short run, as the changes in market conditions that result in an under-utilization of people may occur quickly. As in any service industry, the key element is people; and good people are solicited and retained in periods of low activity. It is therefore not uncommon for a company to absorb short-term productivity reductions arising from changing market conditions, rather than reduce total salary costs to maintain short-term profitability.

In this industry, there appears to be little employee allegiance to companies in the long-term. Most people have worked for one or more of their present competitors, and staff will move from job to

job readily. There appear to be several reasons for this migratory tendency, and include the following:

1. high demand for qualified people,
2. high skill level required,
3. remuneration level varies greatly for the responsibility and technical skills demanded,
4. absence of training programs that result in staff maximizing learning opportunities in a new work environment.

One of the overwhelming factors that becomes apparent in this industry is the level of relatively pure competition. The customers want their freight on site, on time for the lowest possible cost, and most competition appears to centre on service and/or price. In some cases the forwarder's ability to offer door to door service (i.e. freight, customs, delivery, etc.) will be a significant factor in attracting business, and some forwarders have specialized in geographic areas, types of products or specific types of service.

Because the industry is so competitive, the forwarding companies tend to be very pragmatic. If they are confronted with a task, they will do whatever is needed to complete it.

It is very difficult to arrive at conclusions that will be valid in the long term when dealing with an industry that is constantly changing. The international freight forwarding industry appears to be in a state of flux, and care must be taken to periodically re-evaluate these conclusions in light of changing conditions. The following conclusions are derived from the hard data obtained with respect to the 1983 financial year, with supplementary, subjective data obtained from the participating companies up to June, 1984.

1. A very broad range of services is provided by most companies, and any combination of skills will be applied to help a customer solve a problem. This pragmatic approach even extends to joint ventures with, and referrals to, companies that are perceived as competitors in other circumstances.
2. The industry is very close-knit, primarily because of the highly technical nature of the service provided. This has resulted in a great deal of cross-pollination arising from staff rotation amongst companies, and the basic services provided differ very little from company to company.
3. There are some companies that have restricted their operations to a few key service areas, but most participants prefer to offer a fairly full range of services. As a result, competition appears to be a factor of price and/or service depending on the customer's point of reference.

4. In a practical sense many of the companies compete by offering a unique combination of services. In this comparison companies successfully targeted into market areas based on:
 - products,
 - geographic location of shipper,
 - types of customers, and
 - service mix that appeals to a specific customer.
5. The demand for highly skilled freight technicians is very great, and most participants felt that they never had enough good people.
6. The international freight forwarding industry does not appear to be capable of directly influencing general export or import activity. The demands of the industrial and retail marketplace dictate the levels of exports or imports, and freight forwarders merely react to that demand by offering the necessary services. In short, any import or export bias inferred from statistics on the industry merely reflect the bias of the Canadian economy as a whole.
7. There is a large, untapped resource available to Canadian companies that could be of significant benefit to exporters and importers alike. Collectively and individually, the freight forwarding companies have a great deal of knowledge about products and markets that is available at no cost to a prospective customer.

OBJECTIVE OF THE COURSE

The CIFFA Professional Training Program has been designed for staff members of freight forwarders who wish to acquire a general knowledge of the mechanics and theory of handling international cargo movements. The CIFFA Course provides students with an introduction to all aspects of forwarding from documentation to routing, packing, rating, clearing, etc. of shipments. Successful completion of the Course will lead to receipt of the CIFFA Education Certificate.

The Course is a two-year program, comprising a First Year and a Second Year course.

COURSE DESCRIPTION

YEAR ONE – MECHANICS

- **Introduction** – to the industry, to the profession and some of its unique characteristics.
- **Documentation** – required to handle all aspects of a shipment, import, export, bank, office procedures.
- **Air Freight** – the Airwaybill, importance, completion, the consolidation, shipping procedures.
- **Ocean Freight** – the Ocean B/L, bulk, palletized, containers, groupage.
- **Surface Services** – study of road transport, rail, inter-modal, pool car, sufferance terminals how they are used by forwarders.

- **Related Services** – Customs Clearance, Warehousing, Household Goods Movement. They all relate, but how?
- **Risk Management** – how to identify and control areas of risk exposure especially in handling invoicing, insurance documentation, claims handling.

YEAR TWO – THEORY

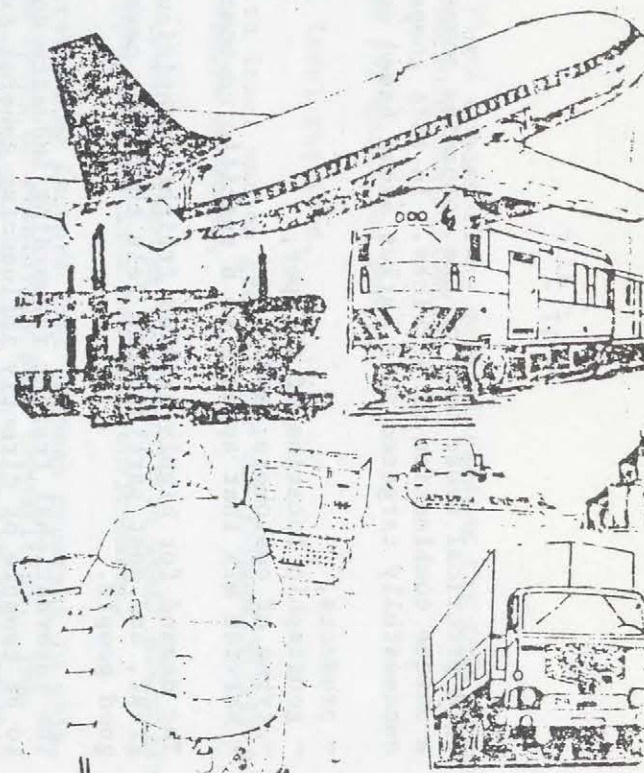
- **Alternatives** – how and why to look at a different way of doing things.
- **Risk Management** – loading safely, insurance policies, dangerous goods, etc.
- **Ocean Freight** – study conferences, routings, rates, groupage costing programs.
- **Air Freight** – IATA tariffs, routing procedures, non-IATA airlines, rating Airwaybills.
- **Quoting and Costing** – how to prepare an effective quote to a client and ensure a profit margin.
- **Special Services** – the unusual, Special Projects, Chartering, Over Size Loads.
- **The Future** – what will affect the freight forwarder of the future. Computers, a changing labour scene, and other points are discussed.

STUDY METHOD

The Course is a combination of seminars and home study program with attendance at the seminars compulsory.



Freight Forwarders Professional Education Course



Canadian International Freight
Forwarders Association Inc.

Association des Transitaires
Internationaux Canadiens Inc.

TABLES

TABLE 1

ESTIMATE OF PHYSICAL DISTRIBUTION EXPENDITURES

<u>TRANSPORTATION</u>	<u>1979</u>	<u>1981</u>	<u>TRAFFIC SERVICES</u>	<u>1979</u>
	(\$ billions)			(\$ billions)
Water	3.8	2.8	*Warehousing	10.6
Rail	5.2	5.9	Transport Packing	1.4
Truck	4.1	5.7	*Trade Communications	2.0
Air	1.1	1.7	Freight Forwarding	1.0
	_____	_____	Insurance	_____.2
TOTAL	<u>\$14.2</u>	<u>\$16.1</u>		<u>\$15.2</u>

Source: Statistics Canada Publications/Special Runs

*Estimated various sources

TABLE 2

NUMBER OF OFFICES PER TYPE OF COMPANY

Number of Companies with:

<u>Services</u>	1 Offices		2-10 Offices		11-40 Offices		<u>TOTAL</u>	<u>TOTAL %</u>
	#	%	#	%	#	%		
Only Forwarding	116	72%	43	27%	2	1%	161	(100%)
Only Customs Brokerage	89	80%	21	19%	1	1%	111	(100%)
Both Services	70	44%	72	46%	16	10%	158	(100%)
<hr/>								
Domestic Firms	255	67%	111	29%	15	4%	381	(100%)
Foreign Controlled Companies	20	41%	25	51%	4	8%	49	(100%)
All Companies	275	64%	136	32%	19	4%	430	(100%)
<hr/>								
<u>Foreign Controlled Companies</u>								
Only Forwarding	15	50%	15	50%	0	-	30	(100%)
Forwarding & Customs Brokerage	5	26%	10	52%	4	22%	19	(100%)

Sources: - DRIE listing of customs brokers and freight forwarder offices in Canada
- 1984
- Dunn & Bradstreet

Transportation Services Division
Service Industries Branch, DRIE.

October, 1984

TABLE 3

RELATIONSHIP OF EMPLOYMENT TO NUMBER OF OFFICES

	<u>Companies With:</u>			Total No. Of Offices
	1 Office	12-10 Offices	11-40 Offices	
1. # <u>Companies</u>				
Foreign controlled	20	25	4	49
Domestic	<u>255</u>	<u>111</u>	<u>15</u>	<u>381</u>
TOTAL	<u>275</u>	<u>136</u>	<u>19</u>	<u>430</u>
2. # <u>Offices</u>				
Foreign controlled cos.	20	126	71	217
Domestic cos.	<u>255</u>	<u>392</u>	<u>330</u>	<u>977</u>
TOTAL	<u>275</u>	<u>518</u>	<u>401</u>	<u>1194</u>
3. # <u>Employees</u>				
Foreign controlled cos.	148	1227	948	2323
Domestic cos.	<u>1643</u>	<u>2617</u>	<u>2974</u>	<u>7234</u>
TOTAL	<u>1791</u>	<u>3844</u>	<u>3922</u>	<u>9557</u>

Average Number of Employees:

4. Per Company

Foreign controlled cos.	7	49	237	47
Domestic cos.	<u>6</u>	<u>24</u>	<u>198</u>	<u>19</u>
TOTAL AVERAGE				
FOR INDUSTRY	<u>6</u>	<u>28</u>	<u>206</u>	<u>22</u>

5. Per Office

Foreign controlled cos.	7	9	13	11
Domestic cos.	<u>6</u>	<u>6</u>	<u>9</u>	<u>7</u>
TOTAL AVERAGE				
FOR INDUSTRY	<u>6</u>	<u>7</u>	<u>9</u>	<u>8</u>

Source: DRIE Listing Freight Forwarders and Customs Broker Offices in
Canada - 1984
Dunn & Bradstreet

TABLE 4

**FREIGHT FORWARDERS:
Revenues, Assets, Equity, Liabilities and Pretax Profits - 1980**

	REVENUE GROUP							TOTAL
	Less Than 250K	250K- 600K	600K- 1M	1M- 3M	3M- 5M	5M- 10M	+10M	
# of firms	81	66	30	53	19	19	15	283
Per cent	28.6	23.3	10.6	18.7	6.7	6.7	5.3	100.0
Revenues ¹	8 539	27 368	23 557	96 092	71 910	135 646	542 119	908 501
Percent	0.9	3.0	2.6	10.6	7.9	15.3	59.7	100.0
Assets ¹	13 315	31 911	28 193	90 745	53 522	77 623	287 446	587 755
Percent	2.3	5.4	4.8	15.4	10.0	13.2	48.9	100.0
Equity ¹	4 466	11 100	7 952	23 984	14 602	13 269	57 901	133 274
Percent	3.3	8.3	6.0	18.0	11.0	10.0	43.5	100.0
Liabilities ¹	8 849	20 811	20 241	66 761	43 920	64 354	229 545	454 481
Percent	1.9	4.6	4.5	14.7	9.7	14.2	50.5	100.0
Pretax Profits ¹	1 841	3 780	1 517	9 876	3 175	6 233	21 727	48 149
Percent	3.8	7.8	3.2	20.5	6.6	12.9	45.1	100.0

SOURCE: "Freight Forwarding in Canada"; S. Wing, Transport Canada-1984
(special runs from Statistics Canada Corporate Tax Returns)

¹ \$000's

Note: K = Thousands
M = Millions

TABLE 4 (continued)

**FREIGHT FORWARDERS:
Revenues, Assets, Equity, Liabilities and Pretax Profits - 1976**

	REVENUE GROUP							TOTAL
	Less Than 250K	250K- 600K	600K- 1M	1M- eM	3M- 5M	5M- 10M	+10M	
# of firms	74	51	25	37	15	7	9	218
Per cent	33.9	23.4	11.5	17.0	6.9	3.2	4.1	100.0
Revenues ¹	8 963	21 121	20 066	69 166	62 427	54 727	234 440	470 910
Percent	1.9	4.5	4.3	14.7	13.3	11.6	49.8	100.0
Assets ¹	12 450	21 849	23 441	70 809	33 484	20 631	129 360	312 024
Percent	4.0	7.0	7.5	22.7	10.7	6.6	41.5	100.0
Equity ¹	4 519	8 057	10 823	16 553	9 721	5 062	29 526	84 261
Percent	5.4	9.6	12.8	19.6	11.5	6.0	35.0	100.0
Liabilities ¹	7 931	13 792	12 618	54 256	23 763	15 569	99 834	227 763
Percent	3.5	6.1	5.5	23.8	10.4	6.8	43.8	100.0
Pretax Profits ¹	1 119	1 610	6 957	3 367	2 104	2 229	10 640	28 026
Percent	4.0	5.7	24.8	12.0	7.5	8.0	38.0	100.0

SOURCE: "Freight Forwarding in Canada"; S. Wing, Transport Canada-1984
(special runs from Statistics Canada Corporate Tax Returns)

\$000's

Note: K = Thousands
M = Millions

TABLE 4 (continued)

**FREIGHT FORWARDERS:
Revenues, Assets, Equity, Liabilities and Pretax Profits - 1973**

	REVENUE GROUP							TOTAL
	Less Than 250K	250K- 600K	600K- 1M	1M- 3M	3M- 5M	5M- 10M	+10M	
# of firms	92	41	18	25	9	4	4	193
Per cent	47.7	21.2	9.3	13.0	4.7	2.1	2.1	100.0
Revenues ¹	9 131	15 754	14 651	38 469	35 990	29 922	131 819	275 736
Percent	3.3	5.7	5.3	14.0	13.1	10.9	47.8	100.0
Assets ¹	13 106	17 455	15 601	40 346	26 594	21 006	64 122	198 230
Percent	6.6	8,8	7.9	20.4	13.4	10.6	32.3	100.0
Equity ¹	5 034	6 324	3 432	15 821	5 998	5 348	15 659	57 616
Percent	8.7	11.0	6.0	27.5	10.4	9.3	27.2	100.0
Liabilities ¹	8 072	11 131	12 169	24 525	20 596	15 658	48 463	140 624
Percent	5.7	7.9	8.7	17.4	14.6	11.1	34.5	100.0
Pretax Profits ¹	1 037	1 152	940	3 001	12 615	2 955	-300	11 400
Percent	9.1	10.1	8.2	26.3	22.9	25.9	neg	100.0

SOURCE: "Freight Forwarding in Canada"; S. Wing, Transport Canada-1984
(special runs from Statistics Canada Corporate Tax Returns)

¹ \$000's

Note: K = Thousands
M = Millions

TABLE 4 (continued)

**FREIGHT FORWARDERS:
Revenues, Assets, Equity, Liabilities and Pretax Profits for
153 Matched Company's - 1973**

	REVENUE GROUP							TOTAL
	Less Than 250K	250K- 600K	600K- 1M	1M- 3M	3M- 5M	5M- 10M	+10M	
# of firms	73	32	15	22	7	3	4	156
Per cent	46.8	20.5	9.6	14.1	4.5	1.9	2.6	100.0
Revenues ¹	7 968	11 894	12 276	32 735	27 123	20 341	131 819	244 156
Percent	3.2	4.9	5.0	13.4	11.1	8.3	54.0	100.0
Assets ¹	11 177	13 323	13 432	33 646	19 666	15 380	64 122	170 746
Percent	6.5	7.8	7.9	19.7	11.5	9.0	37.6	100.0
Equity ¹	4 702	5 424	2 834	13 546	4 665	4 027	15 659	50 857
Percent	9.2	10.7	5.6	26.6	9.2	7.9	30.8	100.0
Liabilities ¹	6 475	7 899	10 598	20 100	15 001	11 353	48 463	119 899
Percent	5.4	6.6	8.8	16.8	12.5	9.5	40.4	100.0
Pretax Profits ¹	956	963	861	2 094	2 044	2 008	-300	8 626
Percent	11.1	11.2	10.0	24.3	23.7	23.3	neg.	100.0

SOURCE: "Freight Forwarding in Canada"; S. Wing, Transport Canada-1984
(special runs from Statistics Canada Corporate Tax Returns)

¹ \$000's

Note: K = Thousands
M = Millions

TABLE 4 (continued)

**FREIGHT FORWARDERS:
Revenues, Assets, Equity, Liabilities and Pretax Profits for
153 Matched Company's - 1976**

	REVENUE GROUP							TOTAL
	Less Than 250K	250K- 600K	600K- 1M	1M- 3M	3M- 5M	5M- 10M	+10M	
1976								
# of firms	44	42	16	32	11	5	6	156
Per cent	28.2	26.9	10.3	20.5	7.1	3.2	3.8	100.0
Revenues ¹	5 550	17 092	12 962	59 041	45 207	37 583	196 602	374 037
Percent	1.5	4.6	3.5	15.8	12.1	10.0	52.6	100.0
Assets ¹	8 433	17 562	17 813	60 653	27 371	17 317	95 824	244 973
Percent	3.4	7.2	7.3	24.8	11.2	7.1	39.1	100.0
Equity ¹	3 865	7 513	10 015	16 082	8 712	3 540	25 784	75 516
Percent	5.1	9.9	13.3	21.3	11.5	4.7	34.2	100.0
Liabilities ¹	4 568	10 049	7 798	44 571	18 659	13 777	70 035	169 457
Percent	2.3	5.9	4.6	26.3	11.0	8.1	41.3	100.0
Pretax Profits ¹	995	1 317	6 856	3 644	1 564	1 010	9 511	24 989
Percent	4.0	5.3	27.5	14.6	6.3	4.1	38.2	100.0

SOURCE: "Freight Forwarding in Canada"; S. Wing, Transport Canada-1984
(special runs from Statistics Canada Corporate Tax Returns)

¹ \$000's

Note: K = Thousands
M = Millions

TABLE 4 (continued)

**FREIGHT FORWARDERS:
Revenues, Assets, Equity, Liabilities and Pretax Profits for
153 Matched Company's - 1980**

	REVENUE GROUP							TOTAL
	Less Than 250K	250K- 600K	600K- 1M	1M- 3M	3M- 5M	5M- 10M	+10M	
# of firms	28	47	23	28	11	13	6	156
Per cent	17.9	30.1	14.7	17.9	7.1	8.3	3.8	100.0
Revenues ¹	2 770	20 238	18 144	59 459	42 080	94 275	286 806	514 772
Percent	0.5	3.9	3.5	9.8	8.2	18.3	55.7	100.0
Assets ¹	6 531	26 308	18 233	66 800	42 940	51 332	145 376	357 520
Percent	1.8	7.4	5.1	18.7	12.0	14.4	40.7	100.0
Equity ¹	4 138	12 325	7 286	21 908	12 340	9 843	30 309	98 149
Percent	4.2	12.6	7.4	22.3	12.6	10.0	30.9	100.0
Liabilities ¹	2 393	13 983	10 947	44 892	30 600	41 489	115 067	259 371
Percent	0.9	5.4	4.2	17.3	11.8	16.0	44.4	100.0
Pretax Profits ¹	1 495	3 117	1 512	8 145	2 513	5 024	8 962	30 768
Percent	4.9	10.1	4.9	26.5	8.2	16.3	29.1	100.0

SOURCE: "Freight Forwarding in Canada"; S. Wing, Transport Canada-1984
(special runs from Statistics Canada Corporate Tax Returns)

¹ \$000's

Note: K = Thousands
M = Millions

TABLE 4 (continued)

Returns to Equity, Assets, Revenues and Liabilities - 1980

RATIO X	FREIGHT FORWARDERS	ALL TRANSPORTATION SERVICES
Profit/Equity	36.1	20.4
Profit/Assets	8.2	6.0
Profit/Revenue	5.3	5.3
Equity/Liabilities	29.4	41.7

TABLE 5

LOCATION OF FREIGHT FORWARDER AND CUSTOMS BROKER OFFICES IN CANADA

<u>Province</u>	<u>6.1 Regional Distribution of all Offices</u>			<u>6.2 Location of Multinationals Offices</u>		
	<u>Head Offices</u>	<u># of Offices</u>	<u>% of Offices</u>	<u>Head Offices</u>	<u># of Offices</u>	<u>% of Offices</u>
B.C.	54	157	13%	6	36	17%
Alta.	24	118	10%	4	39	18%
Sask.	3	22	2%	0	2	1%
Man.	9	45	4%	0	11	5%
Ont.	209	488	41%	29	69	32%
Qué.	120	308	26%	10	52	24%
N.B.	5	18	1%	0	1	1%
N.S.	3	28	2%	0	6	2%
P.E.I.	0	0	0%	0	0	0%
Nfld.	3	4	1%	0	0	0%
Total	430	1 188	100%	49	216	100%

6.3 Regional Distribution of Services

Number of Offices in Each Province Providing:

<u>Province</u>	<u>Only Forwarding</u>		<u>Only Customs Brokerage</u>		<u>Both Services</u>	
	<u># of Offices</u>	<u>% of Offices</u>	<u># of Offices</u>	<u>% of Offices</u>	<u># of Offices</u>	<u>% of Offices</u>
BC	38	13%	32	17%	87	12%
Alta.	24	9%	23	12%	69	10%
Sask.	5	2%	7	4%	10	2%
Man.	9	2%	6	3%	30	4%
Ont.	129	43%	81	44%	278	39%
Que.	82	27%	27	15%	199	39%
N.B.	3	1%	3	2%	12	2%
N.S.	7	3%	4	2%	17	2%
P.E.I.	0	-	-	-	0	-
Nfld.	0	-	2	1%	2	1%
Total	299	100%	195	100%	704	100%

Source: DRIE Listing of Freight Forwarders and Customs Brokers, 1984.

TABLE 6

MATRIX OF THE LOCATION OF FREIGHT FORWARDER OFFICES IN CANADA

Number of companies with offices in province "A" & "B"

<u>Province (A)</u>	<u>Province (B)</u>								
	<u>NFLD</u>	<u>N.S.</u>	<u>PEI</u>	<u>N.B.</u>	<u>QUE</u>	<u>ONT</u>	<u>MAN</u>	<u>SASK</u>	<u>ALTA</u>
B.C.	1	15	0	5	41	47	23	5	31
Alberta	1	13	0	5	24	26	23	7	
Saskatchewan	1	4	0	2	6	7	7		
Manitoba	1	13	0	6	24	23			
Ontario	1	16	0	6	66				
Quebec	1	15	0	5					
New Brunswick	0	6	0						
P.E.I.	0	0							
Nova Scotia	1								

Total Number of Multi-Office Freight Forwarders Companies = 133
With 822 Offices in Canada

Source: DRIE Listing of Customs Brokers and Freight Forwarder Officers in
Canada - 1984 Transportation Services Division, Service Industries Branch

TABLE 7
GEOGRAPHIC DISTRIBUTION OF INTERNATIONAL
FREIGHT FORWARDER REVENUES

	<u>1980</u>		<u>1982</u>		<u>% 1982 Canadian Trade</u>
	<u>Imports %</u>	<u>Exports %</u>	<u>Imports %</u>	<u>Exports %</u>	
United States	25.6	3.4	27.8	16.1	68.0
Western Europe	23.5	39.0	25.2	23.7	10.0
Eastern Europe	3.4	1.3	4.9	0.5	3.0
Japan	9.5	10.3	9.4	6.5	5.0
United Kingdom	14.5	6.7	11.6	16.6	-
Far East/Asia	12.4	21.7	15.9	12.2	-
South America	6.5	4.5	1.1	15.0	
Middle East	1.9	4.2	1.4	4.4	
Africa	1.6	3.4	1.1	2.8)	
Oceania	0.6	2.7	1.0	1.1)	14.0
Central America	0.5	2.8	0.6	1.1)	
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Source: E. Ludwig: "The role of international freight forwarders in enhancement of Canadian Export Trade."

TABLE 8
ESTIMATED PERCENTAGE USE OF FREIGHT FORWARDERS
BY EXPORTERS FOR VARIOUS REASONS

	<u>10 years ago</u>	<u>today</u>	<u>10 years hence</u>
1. To penetrate new international markets	9	8	8
2. To serve unstable markets with changing trade rules	11	10	6
3. For occasional exports to unfamiliar territories	6	7	9
4. For a more competitive rate through consolidation	15	52	54
5. Unique expertise in international transport and trade	57	21	22
6. Other*	<u>2</u>	<u>2</u>	<u>2</u>
Total	<u>100</u>	<u>100</u>	<u>100</u>

*Includes personal relationships, captive account, and to avoid hiring professional transportation staff.

Source: E. Ludwig: "The role of International freight forwarders in the enhancement of Canadian Export Trade."

