FREIGHT FORWARDING INDUSTRY - THE CONTEMPORARY ROLE AND DEVELOPMENT TRENDS IN SERBIA

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Abstract: *The freight forwarding industry has been changed and developed through the history, as a result of the development in trade, transportation, other related industry sectors, logistics and information technologies, laws, and other social, economic and political changes. By using the available literature and analysing the statistical data of EU and Serbia, we examined briefly the current role and development trends in the freight forwarding industry, following the NACE industrial classification of economic activities. The results confirmed that this subsector has a crucial importance within the logistics sector and, consequently, in the national economy on a whole. In the same time, it is highly diversified on the market, "hidden" and underestimated in the classification of activities, and not precisely recognized by current NACE classification. Further, the freight forwarding industry in Serbia shows some specificities comparing to the EU experience.*

Keywords: *Freight forwarding industry, Development trends, Sectors classification, EU, Serbia.*

1. INTRODUCTION

The freight forwarding (FF) industry has been changed and evolved during the centuries. Many factors have contributed to these changes. In the recent period, the most influential factors are trade development, globalization, and rapid changes in transport and logistics technologies, information technologies and legislative which regulate different stages of international trade [1]. These impacts are so high, that some authors hypothesized the extinction of traditional freight forwarders in the forthcoming period [2]. Additionally, other social, economic and political changes may also strongly impact the development of the freight forwarding market. For example, in some former socialist countries, privatization, economic transition, and entrance to the open and global markets put additional significant challenges in the business operations for freight forwarders [3].

The purpose of this paper is to explore the evolution and the current role of FF within the logistics sector in the case of the Republic of Serbia and compare it, as much as possible, to the EU experience. For the theoretical considerations, we reviewed briefly the academic

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literature and the viewpoints of The International Federation of Freight Forwarders Association (FIATA). Some of the main characteristics of the FF industry evolution, practice and experience are more or less applicable worldwide. For the empirical part of the research, we used the available statistical database about the firms in the logistics industry in order to compare the role and significance of FF to other activities within the logistics sector. The current classification of logistics companies according to NACE and national classifications and the position of the FF companies is also reviewed.

The paper structure is as follows. In the second section, the evolution of companies in the market of the FF industry is briefly presented. The methodology for empirical analysis of the role of the FF industry within the logistics sector in EU and Serbia is described in the third section. Here is also stressed the position of freight forwarding industry from the perspective of the current NACE classification of activities. The main empirical results are presented in the fourth section, whereas discussion and concluding remarks are presented in the fifth section. The conclusion is given in the last section.

2. THE ROLE OF FREIGHT FORWARDING INDUSTRY

The development of the FF industry and the changing role of a freight forwarder are strongly related to many complex impact factors, such as globalization, a rapid increase of international trade and technology development, including information technology. Due to the development of IT-based supply chain integration, value-added service offerings and increased requirements for cargo security, the traditional freight forwarder is being forced to evolve, or else risk extinction [2].

Traditionally, freight forwarding is an economic activity responsible to manage moving goods, typically in international trade. Freight forwarders are responsible for planning and organization of moving goods, networking of all parties involved in delivery and coordination between them, controlling all processes and actors from the departure to the point of delivery. They care about all administration and documents handling. They may have warehouses or transport fleet, but transport and storage are considered as additional, support activities to the main task. However, due to the increasing complexity of activities which perform different intermediaries and evolving the most developed freight forwarding companies into logistics integrators, the definitions of freight forwarders has started to be changed in scholar books, by the most relevant international FF associations, in the national and international legislation and regulative instruments.

The contemporary approach assumes that freight forwarding comprises all activities related to managing *and performing* logistics activities and other supporting activities to transform the goods through the time and space, reaching the 7R's logistics objectives (the right goods, at right quantity and in the right conditions, at the right time and right place, with the right price, to the right customer) [4]. The evidence may be found in changing terminology by the national and international freight forwarding associations. Also, the changes have been recorded in their terms and regulations related to the basic freight forwarders roles. The last definitions of the most important freight forwarding organization FIATA (The International Federation of Freight Forwarders Association) completely reveal the complexity of the industry:

"Freight Forwarding and Logistic Services" means services of any kind relating to the carriage (performed by single mode or multimodal transport means), consolidation, storage, handling, packing or distribution of the Goods as well as ancillary and advisory services in connection therewith, including but not limited to customs and fiscal matters, declaring the Goods for official purposes, procuring insurance of the Goods and collecting or procuring payment or documents relating to the Goods. Freight Forwarding Services also include logistical services with modern information and communication technology in connection with the carriage, handling or storage of the Goods, and de facto total supply chain management. These services can be tailored to meet the flexible application of the services provided.

(FIATA, 2004) [5]

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(FIATA, 2007) [6]

These definitions do not offer a clear boundary between the logistics and freight forwarding services; they rather point out their interdependence and overlapping in industry practice. Freight forwarders may be all kind of intermediaries in moving goods, but also parties which perform the delivery and offer the whole package of services. Thus, the research question is: how to differentiate freight forwarders from other logistics providers and what is their role in the logistics industry?

Today, successful freight forwarders may be enterprises of all sizes, from the micro-sized ones highly specialized for a particular market niche to global logistics companies who offer "door-to-door" delivery. They operate as a wide range of intermediaries, with different roles in different legal systems (principals, a wide range of agents, carriers, customs brokers, multimodal transport operators). The diversity of their activities is high, from customs brokerage, over arranging all transport operations by rail, road, sea or air, including multimodal transport, to performing all logistics operations to provide "door-to-door" delivery. Some of the traditional freight forwarders from the end of XIX century have been evolved into the regional and global 3PL and 4PL providers and integrators, and the most powerful companies in the logistics industry in the XXI century [1, 7]. As some authors noticed, "logistics intermediaries come in different forms and under different names, but they all have the same goal: to provide help to companies in the transportation, storage, shipment and the distribution of goods from the seller to the buyer or the final consumer..." [8]. There is no doubt that their role is crucial in international trade flows. FF companies support approximately 95% of international trade flows in Serbia [3].

The freight forwarding market is still fragmented everywhere, with a mix of global providers and many small competitors [9]. Authors Kilibarda et al. [3] figured out three types of freight forwarding companies in Serbian market: two out of them are basically intermediaries (customs brokers, or brokers in transport and organization of trade flows) and the last group comprises the companies that provide a wide range of logistics services (packing of goods, consolidation, transportation, storage and reloading of goods, preparation of documents, customs clearance, transportation insurance). On the market, they are both competitors and partners. In many cases, multinational providers outsource part of services to medium or small-sized freight forwarders, custom clearance agents and logistics providers to expand their business. The evolution of freight forwarding companies, as well as the typical players in the modern market, is shown in Figure 1. The positions of the various players in Figure 1 merely, although not inevitably indicate their relative size.

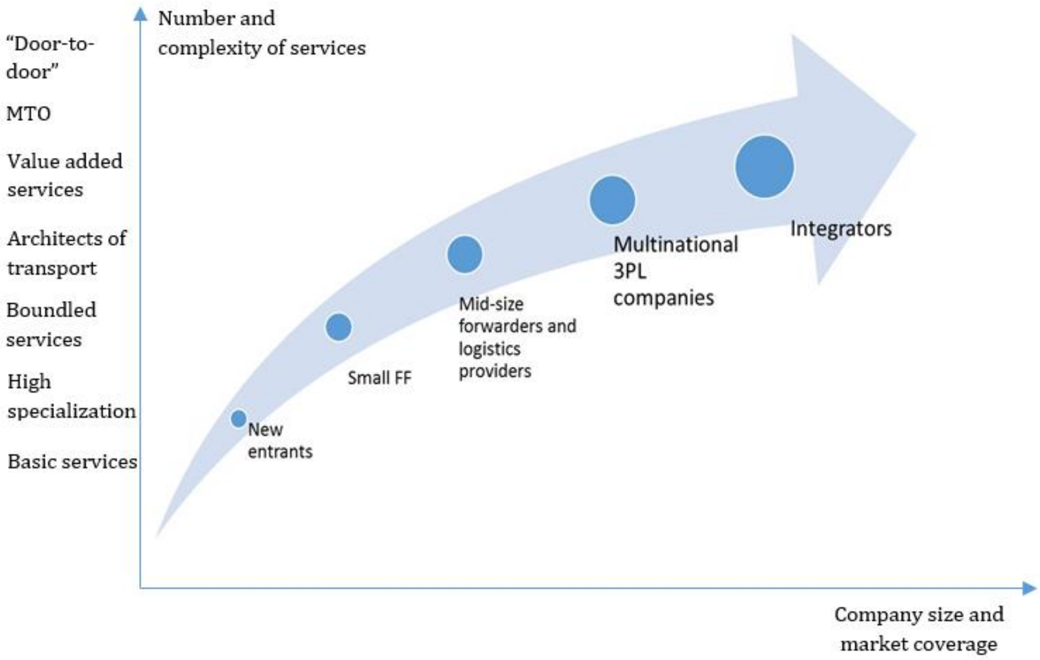

Figure 1. The evolution of freight forwarders (adapted from [2, 4])

All freight forwarders on the market have to cope with many challenges. The challenges or their priorities partly depend on the type of FF company. However, some challenges are common for all players: the competition and risks are higher than ever before, customers' relationships are evolving and more demanding than ever, there is more dependence on the integration of processes, and the value of information is increasing [2]. Small enterprises additionally have to cope with the power of bigger players around them, whether they are competitors, customers or other contractors in the same supply chain. Moving into the next-level category may be through company size expanding (e.g. acquisition and merging), but also through networking and collaboration. However, small freight logistics providers can be successful in their market niche if they provide competitive service. The new entrants in the market are usually new customs brokers and smaller freight forwarders.

3. METHODOLOGY - A CASE OF SERBIA

We used the data obtained from the Serbian Business Registers Agency (SBRA) and available by the Eurostat to perform empirical analysis and answer on the research question. All codes which cover moving, handling and storage goods as the primary industry according to the Statistical classification of economic activities in the European Community (NACE) are included in the analysis. It has to be pointed out that the data are different from those shown in the Statistical Yearbook, due to different methodology. The Official Yearbook does not have data which cover particular activities in the logistics sector, as given in Table 1.

Currently, according to the NACE, the logistics sector comprises activities with codes from 49 to 53 (Table 1). Passenger transportation is excluded from the analysis. Pipeline transport is also excluded due to its high specificities, although it belongs to the logistics activities.

Table 1. The list of activities which belong to the logistics industry (according to NACE Rev. 2 H-N and S95)

Codes and classes		Codes and classes	
49	- Land transport and transport via pipelines	52	- Warehousing and support activities for transportation
49.2	- Freight rail transport	52.1	- Warehousing and storage
49.4	- Freight transport by road and removal services	52.10	- Warehousing and storage
49.5	- Transport via pipeline	52.2	- Support activities for transportation
50	- Water transport	52.21	- Supporting activities in land transport
50.2	- Sea and coastal freight water transport	52.22	- Supporting activities in water transport
50.20	- Sea and coastal freight water transport	52.23	- Supporting activities in air transport
50.4	- Inland freight water transport	52.24	- Handling
50.40	- Inland freight water transport	52.29	- Freight forwarding
51	- Air transport	53.	- Postal and courier activities
51.2	- Freight air transport and space transport	53.20	- Other postal and courier activities
51.21	- Freight air transport		
51.22	- Space transport		

It could be expected that the group 52.2 – " Support activities for transportation" does not include logistics activities, but rather infrastructural and similar activities (e.g. roadside assistance, railway stations, etc.) [10]. However, the group 52.29 – "Other transportation support activities" mostly contains freight forwarding companies and logistics providers both in Serbia and the EU. Actually, supporting activities, except freight forwarding (52.29) and handling (52.24) are related to both, passenger and freight transport and cannot be clearly assigned to the logistics sector. Consequently, all indicators related to this subsector has the methodology limitations.

4. RESULTS

The role of FF in the logistics industry in EU 28 and Serbia in 2016 is presented by three indicators in Table 2 – the number of enterprises, overall turnover and the workforce volume, as well as its share in the total logistics industry. In the EU, freight forwarding was the second largest sector in the number of employees and the number of enterprises in 2011, with the share of 17,4% in the total number of enterprises and almost one-third of employed persons in the logistics industry. The class "road freight transport" had the highest share in the number of logistics enterprises (75%) and the highest share of the employed workforce (45%) operating in the EU market [10].

Table 2. The main indicators of logistics industry in EU and Serbia in 2016 (Data sources: [11, 12])

Class	No. of enterprises		Overall turnover in %		No. of employees	
	EU	RS	EU	RS	EU	RS
49.20	692	13	1,85%	3,62%	135.126	4.004
49.41	575.000	3.125	31,34%	45,85%	3.154.630	19.988
50.20	5.203	5	7,81%	0,18%	80.455	22
50.40	5.736	40	0,46%	2,22%	83.773	916
51.21	735	-	/	/	22.316	-
52.10	22.505	129	8,35%	13,35%	599.707	1.279
52.21	38.058	238	7.47%	7,15%	517.744	13.530
52.22	9.564	20	2,18%	0,16%	:	95
52.23	5.132	25	5,11%	5,79%	301.013	3.137
52.24	11.291	43	2,67%	1,00%	250.917	709
52.29	**71.978**	**1.226**	**25,41%**	**18,29%**	**1.112.722**	**8.573**
53.20	77.665	43	7,36%	2,38%	867.419	2.265
Total	**826.860**	**4.907**	**100,00%**	**100,00%**	**8.091.410**	**54.518**

The crucial importance of FF group of activities in the EU was also recorded in 2016. It kept the position of the second important class of activities in turnover (share of 24,27%) and employed persons (share of 13,75%) in the logistics industry. It should be noted that compared to the recorded number of enterprises and the employed workforce of the class 49.41 - Freight transport by road, the turnover in the FF industry was achieved by much fewer resources.

However, compared to the reached turnover of EU countries in 2011 in the same class of activities [10], there is a significant decrease. Among the main reasons for such big discrepancy, the changes in the logistics market seem to be more influential than the EU enlargement for one country. For example, the EU logistics sector recorded a significant increase of the market of couriers, express and postal industry (the class 53.20). This is important from the perspective of FF industry because this class also comprises logistics integrators, such as DHL, TNT, FedEx etc. They offer globally “door to door” service, and usually own significant logistics resources and infrastructure to provide high-quality service worldwide. The importance of these players in the European logistics sector certainly increase. Though, this class of activities also covers the courier service and the increased importance of this industry cannot be simply related only to the increased importance of integrators. The reasons for changes are probably not exhausted and it could be interesting to explore them more in-depth in the future.

In Serbia, FF is also the second important class of activity (after road freight transport), with 24,98% share of FF firms in the total number of logistics firms, and the third important in the total logistics industry workforce with 15,73% share of employees [11]. The share of turnover (18,29%) is also on the second place, after the road freight transport. It is lower comparing to EU experience, whereas the bigger share of smaller enterprises is also recorded (persons per enterprise employed, Table 3). On a whole, the numbers indicate a dominance of small freight forwarders in Serbia, with less turnover and workforce than the ones in EU, which may imply a less power compared to the freight forwarding enterprises in the EU. Regarding the workforce skills, a survey conducted by EU in 2011 [10] revealed that 40% of freight forwarders consider a shortage of skilled staff in the FF industry as a question of “high or very high relevance”. The comparative research for Serbia was not performed, but the one of rare research on FF service quality in Serbia, conducted in 2011 by Kilibarda et al. [3], revealed that the logistics service quality of freight forwarding companies in Serbia is not at a satisfactory level. Although the underlying reasons are not explored, it could be supposed that the workforce skills may be among the main ones.

Table 3. The comparative overview of the role and significance of freight forwarding sector (class 52.29) in Serbia and EU – the share in the logistics sector in 2016

	Share of enterprises	Share of turnover	Share of employees	Number of employees per enterprise
Serbia	25%	18%	12%	7
EU 2016	9%	24%	14%	15

Warehousing is usually another big contributor to the added value of outsourced logistics activities in the EU, after land transport [10]. In Serbia, this is the third important activity in turnover and number of enterprises, and the second one in the workforce. One may notice that both road freight transport and warehousing services are usually among the basic logistics services of freight forwarders and there is a possibility that some of the important freight forwarders are also “hidden” within these classes, in cases where the freight forwarding services are classified as the ancillary activities.

The European experience also confirmed that some of the most important players in the logistics sector like Schenker, Gefco, Hoyer, Hermes Logistics, DHL Freight, and some other companies, which are among the biggest logistics service providers in Europe, are classified mostly as the Class 52.29 [10]. In Serbia, the 10 best freight forwarders were Milšped, Kühne + Nagel, MSC, ASV, PRO TEAM, Transportšped, Transprom, Cargo Agent, Eurologsystem and Same & Same, are listed regarding their profit in 2016 (source: SBRA, 2018). Among these firms, small enterprises prevail, whereas most of them realize a range of additional activities rather than belonging to the traditional freight forwarders. Also, it should be noted that the size of an enterprise does not reflect necessarily the real role of SMEs on the market. For example, many global companies have local subsidiaries registered in Serbia like SMEs (i.e. the Kühne + Nagel doo Beograd), although in reality, they are part of the global logistics providers. This is an additional limitation to the assessment of the real role of SMEs in the FF industry.

5. DISCUSSION

Two main conclusions raised from the results. Firstly, the sector classification and statistical data do not reflect the real role and the real state of freight forwarding. Some other authors also indicate this discrepancy between the FF role in the logistics industry and its current position in classification (e.g. [13]). The presented results underpin such a viewpoint. Secondly, current classification does not fit to the FF practice. Small freight forwarders may provide also basic transport and warehousing services, medium-sized may be also exporters or importers, whereas the biggest players are integrators which may be classified into express and courier companies. The companies which perform other activities than logistics may also act as successful freight forwarders on the market. Other logistics, or even trade and manufacturing companies may have developed freight forwarding activities as the very significant source of the turnover, but still be recognized as the ancillary activity. The freight forwarding activities in such enterprises are invisible within the current statistical methodology. For the purpose of statistics, companies will be classified according to the most profitable activities.

As a result, we have a blurred picture of the enterprises in the FF market, and a lack of accurate statistical data. There are many limitations which indicate that statistical numbers have to be used carefully in analyses and policymaking. The main reasons for an unclear picture about the role and importance of freight forwarding activities may be as follows:

- The evolution of the freight forwarding industry, especially in several last decades,
- The official statistical methodology limitations,
- Changing laws and regulations on the freight forwarding industry, which are not followed by changes in sectors classifications.

All three reasons may contribute to the dispersion of FF enterprises throughout several classes. Additionally, the serious weakness of NACE classification is that such an important group of activities is not clearly recognized. Freight forwarding should be recognized clearly in classification and methodology description, as a separate class. It is too much important to be classified as the "other activities" and coupled with enterprises which are not in freight forwarding sector. Currently, there is still a possibility that firms with other activities than FF could be classified in this group and thus cause additional bias in different analysis.

In the future, it is expected that the freight forwarding market will remain to be a mixture of companies with different size, diversified services and competitive resources, as well as with a number of market niches. The enterprises will be both competitors and "complementors" (firms contracted by the main FF company to perform complementary/supporting services) on the FF market in their efforts to design, coordinate and perform complex supply chains and networks. The niche markets will be determined by the FF companies' size, the group of activity, industry and geographic focus in international trade, etc.

Presented research has some limitations. The analysis is not quite consistent with the EU ones. The EU also includes pipeline transport. Still, it is not expected that enterprises in this class have a significant role in the Republic of Serbia compared with total logistics sector. The class "53.10 - Postal activities under universal service obligation" was also excluded from logistics sector, although there could be noticed the efforts of universal postal operators to find a new, more competitive role in the courier and express market.

6. CONCLUSION

It could be concluded that the freight forwarding subsector is very significant and, at the same time, surprisingly underestimated in the official statistical industrial classifications, or not exactly covered by this classification. Recent research showed that in the EU and Serbia, this is the second important logistics class of activities in the turnover and the number of enterprises (after the road freight transport). Also, in both cases the share in the logistics workforce is among the top three classes.

All results suggest a necessity to consider the classification improvement for the freight forwarding, careful usage of the statistical data by the policymakers, and more careful approaches in research related to the freight forwarding industry. Some of the companies, which belong to the most evolved freight forwarders ("integrators"), are usually classified into the class "Other postal and courier activities", which has recorded increase in the recent period. Other methodology limitations also contribute to the misperception of the FF role in logistics industry and, consequently, for the national economy on a whole.

Finally, following high diversity of the market, limitations of official NACE classifications and wide definitions of the most prominent international associations, one may ask how to differentiate freight forwarder from all other logistics providers in the logistics industry. The answer may be as follows: if the logistics provider act as any kind of logistics intermediary in supply chains, he or she may be classified as the freight forwarder (in a wider sense), recognized on the market and may join related national or international associations, if interested. If freight forwarding activities prevail among a variety of activities, such kind of company will be also recognized in official NACE classification. But if logistics providers offer only basic transport, storage, package or other logistics activities which need assets (warehouses, fleet, plants, equipment etc.) they cannot be mixed with freight forwarders anyway. Bringing the main value may be facilitated by the owned infrastructure and assets, but not based on basic services. The added value is also the main distinctive characteristics between different kinds/evolution levels of freight forwarders in the market.

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