

The Impact of the Global Financial Crisis on the Freight Forwarding Industry in South Africa

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ABSTRACT

This research investigates the impact of the Global Financial Crisis on the freight forwarding industry in South Africa. Interviews were conducted with senior management from various freight forwarding companies throughout South Africa. Four main themes were examined during the interview process: The impact of the financial crisis in 2008, learning points from the crisis, challenges facing the industry and strategies that have been developed to make companies more robust in the event of a similar crisis occurring in the future.

It was found that the financial crisis affected companies of various sizes differently. Several learning points were taken from the crisis; including access to liquid funds, focus on costs and maintenance of relationships of stakeholders. Companies also indicated that there were many challenges in the current environment, ranging from BBBEE and skills shortages to having a global presence in an inflationary environment.

Most companies have developed various strategies to ensure that they are prepared for future challenges facing the industry. The research concluded that there were both local and international factors affecting the industry and that many challenges existed in the current environment. However, established companies in the industry were well placed and flexible enough to implement the right strategies to ensure continued success of their business.

DECLARATION

I, Francis Kingston, declare that this research report is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

Francis John Kingston

Signed at

On the..... day of 2012

DEDICATION

I would like to dedicate this research report to my parents, Terence and Daisy Kingston, for all their support, encouragement, and constant love.

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Foremost, I would like to thank my supervisor, Greg Beech, for his continuous support, patience and guidance throughout the last year. His contribution and insight is greatly appreciated.

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1 INTRODUCTION

1.1 Purpose of the study

The purpose of this research is to identify how the global financial crisis of 2008/2009 affected the South African freight forwarding industry and how the industry reacted to the crisis. Of particular interest is to establish what companies learnt from the crisis, what the current challenges are in the future and what strategic initiatives freight forwarding companies embarked on to survive and prosper following the crisis.

1.2 Context of the study

The freight forwarding industry handles all matters relating to the importing and exporting of goods into and out of South Africa. Nearly every item that is purchased in stores that is not made in South Africa has been handled by a freight forwarder at some point in time. Companies exporting goods from South Africa also use forwarding agents to ensure goods reach their end destination. The industry is characterised by a few large international companies and many small to medium companies (SME's). There are minimal barriers to entry into the freight forwarding industry, however, understanding the nuances of the industry takes many years of experience in a constantly changing environment. Many newly established freight forwarding companies tend to fail for a number of reasons. The recent global financial crisis caused international trade to decrease significantly (Munshi, 2010), thereby placing increased pressure on the freight forwarding industry.

As economies around the world slowed down and even diminished, freight forwarders in South Africa faced a country in recession which saw imports decline by up to 30% (Customs and Excise, 2011) and demand for exports decreased significantly (Customs and Excise, 2011). The industry had to adapt in the new economic and financial environment after the financial crisis. Banks and other lending institutions became stricter on their lending criteria which impacted on many companies' cash flows and their ability to grow. Coupled with this was the increasing problem of slow payments and bad debts. Customs and Excise duties and VAT collected by the South African Revenue Service ('SARS') were also negatively affected by the decrease in trade volumes (Economy Watch).

Freight forwarding forms part of the logistics sector in South Africa, and plays a pivotal role in the smooth operation of the country. International trade requires the movement of goods in an efficient and effective manner across borders, boundaries and oceans. In order for this to occur, importers and exporters require the services of a freight forwarder manage the process of the logistics (Richards, 2010). Trade between countries would be greatly affected, without the services that these companies provide.

This research examines how the industry in general was affected by the global financial crisis in 2008-2009, the lessons learnt, their current challenges and strategies they have put into place.

1.3 Problem statement

1.3.1 *Main problem*

Analyse and evaluate the impact that the global financial crisis in 2008/2009 had on the freight forwarding industry in South Africa and identify what organisations have learnt, their current challenges and strategies implemented to make their companies more robust.

1.3.2 *Sub-problems*

The first sub-problem is to evaluate the impact that the global financial crisis had on the freight forwarding industry.

The second sub-problem is to identify what companies in the industry have learnt from this experience and identify the main challenges they face.

The third sub-problem is to investigate the challenges the freight forwarding industry faces in the current economic environment.

The fourth sub-problem is to evaluate what strategies have been developed to make organisations more robust in the event such a crisis should occur again.

1.4 Significance of the study

This study fills the gap in that no previous research has been conducted on the aftermath of the financial crisis on the freight forwarding industry in South Africa. As indicated above, this industry is responsible for a significant portion of the revenue that the South African Revenue Service (SARS) collects on an annual basis. Companies wishing to enter this industry currently have a limited understanding of how the financial crisis has changed the way in which freight forwarders operate.

There have been courses and research done regarding how companies should function and the processes involved in freight forwarding (Richards, 2010), but since the financial crisis in 2008, no research in South Africa has been conducted on the impact it had on the industry or how companies have adapted. Research has been conducted on the financial crisis on the transport industry in the USA (Roberts, 2008,) and additional comments were made about the state of global freight forwarders after the financial crisis (Sandalcidis). However, it is unknown whether similar research has been performed from a South African perspective.

This study will be informative to existing and new companies in the freight forwarding industry by highlighting the challenges companies have faced in a post financial crisis environment by providing insight into how some of these companies adapted in order to survive.

1.5 Delimitations of the study

- This study will only address the impact of the global financial crisis in 2008/2009 on South African freight forwarding companies in the two major centres (Johannesburg and Cape Town).
- This study will not focus on companies in the smaller centres such as Durban, Port Elizabeth, East London, Richards Bay and Bloemfontein.
- This study will only take into account factors affecting South African companies and will not examine other global factors influencing international freight forwarders.

1.6 Definition of terms

- VAT and Duty – Rates of duty are set by the government in tariff schedules to obtain revenue from goods being imported and VAT is levied on all goods entering the country (Richards, 2010).
- SAAFF – An acronym for the South African Association of Freight Forwarders, which is a body representing the industry.
- SME – An acronym for Small to Medium Enterprise.
- BBBEE – An acronym for Broad Based Black Economic Empowerment.
- Customs and Excise – A department of the South African Revenue Service which is responsible for the collection of VAT and Duty on all goods entering the country (SARS website).
- Freight Forwarder – An agent tasked by an importer or exporter to arrange the international transportation of their goods (Richards, 2010).

1.7 Assumptions

The following assumptions have been made regarding this study:

- The total number of respondents will be sufficient in order to gain a representative industry view.
- Data from respondents will be truthful and meaningful in order to conduct a significant analysis.

- Respondents will have adequate knowledge of the industry and their company to provide appropriate feedback.
- In asking the respondents questions, the study will assume that the company in question has been affected by the financial crisis and has not been immune to the event.

2 LITERATURE REVIEW

2.1 Introduction

The purpose of this research is to identify the extent to which the global financial crisis has affected the South African Freight Forwarding Industry and to establish how the industry adapted and learnt from this event. The first section looks at evaluating the impact of the global financial crisis on the South African freight forwarding industry. We then look at some of the learning points and challenges that the industry faced after the crisis. Finally this research identifies some of the strategic initiatives companies in this industry implemented in order to enable them to cope with future challenges of this nature.

2.2 Background Discussion

The financial crisis of 2008 led to a collapse in international trade in a dramatic way (Levchenko, Lewis and Tesar, 2010). In 2009, the USA experienced a 3.8% decline in GDP while real US imports fell by 21.4% and real exports fell by 18.9% during the same period. This inevitably led to increased protectionist measures during the course of the crisis (Levchenko, et al, 2010).

The crisis in 2008 impacted freight forwarding in South Africa in a variety of ways. Beinhocker, Davis and Mendonca (2009) indicated that the world has changed and the overall picture is that of an altered business landscape. Beinhocker et al believe that there is no going back to a pre-crisis world and that there is now little appetite for trade liberalisation from countries.

The most likely outcome of the crisis is that governments will now adopt a protectionist attitude as they strive to protect local industries against job losses, rising consumer prices and any other barriers to economic recovery. More recently we have seen protectionist pressures such as increased duties and import tariffs being implemented around the world as the global economy struggles to recover from the recession (Richardson, 2011).

From a South Africa perspective, we have seen Treasury relax exchange controls in an effort to lower the cost of doing business. This has been done by removing various restrictions on rand conversion of export proceeds and advance payments for imports, as well as increasing the rand threshold applicable to outward investments by South African companies (N'zue, unknown).

Beinhocker, et al (2009) continues by saying that there will not be many industries that will be untouched by the recession and that the structure of many industries will probably alter. There will be immediate opportunities in the different segments as research has shown that during a recession, the performance gap between strong and weak players tends to widen (Beinhocker, et al, 2009).

This creates opportunities for potential mergers and acquisitions as companies analyse how to evolve and restructure their industries. A report by the International Monetary Fund ('IMF') describes some of the risks associated with a protracted economic slowdown to Southern Africa. The IMF outlined global competitiveness, a reduction in foreign inflows and greater contingent liabilities for banks as being the primary risks to Southern Africa. South Africa suffered greatly by the crisis and consequently the country fell into recession in the fourth quarter of 2008 (Verick, 2010).

Verick continues by saying that the South African government responded to this downturn by loosening monetary policies and adopting fiscal policies that aimed to support local demand and create jobs.

Madura and Fox (2011) believe that the global financial crisis has massively affected the developed world as compared to the developing world. Madura et al elaborate on this by saying that the future international debate will be more about whether trade practices between countries will be reformed in order to mitigate the risks of another global financial crisis taking place. Over the last 25 years the volume of trade has grown every year, creating an increasingly interdependent global economy and a reduced protectionist attitude by countries (Hill, 2011). According to Hill (2011), between 1990 and 2007, international trade grew by 6% cent per annum, and import tariffs on goods fell around 26%. Hill, (2011) indicates that in the wake of the global financial crisis, worldwide demand slumped and financing for international trade dried up due to tightening credit conditions leading to a 2% drop in trade volumes in 2008.

Jones and Ocampo (2009) noted that in recent decades, world trade has shown two important characteristics. Firstly, trade has tended to expand more rapidly than world production, citing the period of 2003 – 2006 where world trade grew at 9.3 per cent or more than twice the rate of growth of world output. Secondly, Jones, et al (2009), highlights the fact that these rates of growth have been highly elastic to world output through business cycles, and therefore more volatile than world production. The growth of trade volume has experienced a slowdown, to a rate of around two per cent in September 2008 and turned negative in the last quarter of 2008 (Jones, et al, 2009).

International trade and freight forwarders are inextricably linked (Richards, 2010). South African importers rely on the freight forwarder to give advice and to act impartially on all logistical matters pertaining to the movement of their goods. This includes storage, transportation, clearance and even rate negotiations (Richards, 2010).

With the above in mind, we can see that freight forwarders play a critical role in the South African economy and are one of the first industries to feel the impact of a domestic slowdown. The South African freight forwarding industry is unique in the world as it also acts as a second tier bank to many of its clients (the importers). By doing so it takes a large amount of credit risk and is continuously searching for funding solutions to assist with cash flow requirements. This literature covers the major challenges these freight forwarders have and continue to face in the wake of the financial crisis. It also aims to identify the main learning points for the industry in order to cope with any future financial or economic crisis.

South African freight forwarding companies also face unique challenges such as broad based black economic empowerment ('BBBEE') as well as needing a global and international presence while still maintaining their South African culture. This literature will explore these challenges and identify some of the strategies these companies have adopted to overcome obstacles and how they have become more robust in order to do business in an increasingly difficult economic environment.

2.3 The Impact of the Financial Crisis on the freight forwarding Industry

As the flow of freight around the world slows, so governments institute more and more protectionist policies to safeguard their domestic industries (Richardson, 2011). Due to this, the global financial crisis has impacted on trade significantly. South Africa saw a decline in imports of up to 30% year on year between 2010 and 2011 (Customs and Excise, 2011). Whilst the statistics mention a major drop in exports, no study has been conducted to understand the implications further down the economic value chain.

Before the outbreak of the financial crisis, many Southern African countries benefitted from the increases in commodity prices. The massive demand requirements for natural resources, mainly from India and China, benefitted mainly oil rich countries and agricultural net exporters (Massa and te Velde, 2008).

Massa, et al (2008) explains that the global financial crisis and lower global growth saw a decreased demand for these countries exports and consequently a slump in prices.

Naude (2009) noted that most developing countries based their economic growth of recent years on exports. Furthermore, Naude (2009) explained that the global financial crisis would likely lead to a substantial decline in world trade through a combination of a decline in commodity prices, a decline in demand for developing countries goods from advanced economies and a decline in tourism. International trade is heavily dependent on trade credit being extended.

One of the main consequences of the financial crisis was the drying up of credit and a total review of financial institutions who evaluated credit.

Bermann and Martin (2010) highlighted the fact that a banking crisis, which would tighten financial constraints, may affect the patterns of trade. They further believe that most African exporters and importers use other sources of funding such as trade finance to fund their businesses.

Bermann and Martin (2010) note that although African commercial banks are willing to provide financing for trading operations, they are unable to do because many international confirming banks withdrew their credit support from the market, caused by the global financial crisis.

2.3.1 *Funding drying up*

It is estimated that 90 per cent of trade is traditionally financed by short term finance (Naude, 2009). He (Naude, 2009) shows that since the crisis began, banks have begun to limit their risk exposure, leading to pressure on developing-country trade, reducing demand for their exports and reducing trade credit.

Companies of all sizes are re-examining their finances and considering alternative sources of funding (Verick, 2010). Banks in both developed and emerging markets have reported a sharp increase in the cost of trade finance (Bermann and Martin, 2010).

The costs associated with letters of credit have risen, mainly because of the perception of increased risks on low margin products (Bermann and Martin, 2010). The impact this has on the freight forwarding industry would be twofold. If importers cannot get financing, their volumes would decrease due to the fact that they have less funds to spend. Secondly, freight forwarders, who make a margin on the funds they outlay for the importers, would make less profit.

This is due to the fact that a major part of their income is derived from paying large amounts of money to Customs and Excise on behalf of their clients and collecting the funds (with a fee) from their clients. This decrease therefore affects their margins and profitability.

2.3.2 Striking activity on the increase

Uncertainty in the global economy, volatile fuel prices and strike action has affected freight forwarding costs (Venter, 2011). The increasing and on-going labour revolt is having a significant impact on the country, slowing down the transportation of goods through road, rail and ports in the country (Venter and Naidu, 2011).

Venter and Naidu (2011) also explain that although the monetary value of strike activity cannot be quantified, the costs to the economy would easily run into the tens of millions. Peat (2011) outlines the fact that a fuel strike, such as the one experienced in July 2011, puts the smaller companies who do not have fuel reserves at risk. These small businesses obtain fuel from the “forecourts” and without fuel they cannot operate (Peat, 2011). The increased amount of strike activity highlights the mood of the labour force which has seen a reduction of 900 000 jobs since 2008 (Verick, 2010).

2.3.3 Increased Costs

Over the past two years, South Africa has experienced a massive increase in costs in relation to labour, fuel and electricity. The threat of future toll fees lurks as a dark cloud over the industry. Edwin Naidu (2011) shows us that fluctuating fuel costs and maintaining tight controls on administrative costs are some of the major challenges facing the industry. A recent South African Chamber of Commerce and Industry (SACCI) survey reveals the negative impact of the labour behaviour in South Africa (Naidu, 2011). Increasing wage and administrative costs associated with above-inflation wage demands by unions affects consumers and would probably lead to increasing unemployment rates (Naidu, 2011).

To make matters worse, Botti (2011) highlights the fact that the freight forwarding industry has a high staff turnover as well as a skills shortage. Botti (2011) indicates that staff turnover averaged 18% in 2010, which is double the average of most other sectors at the time. This puts pressure on companies to retain their existing talent and give above inflation wage increases, despite a tough economic environment. Toll fees and increasing electricity costs are also threatening margins. According to Peat (2011), the cost of transporting goods could increase by up to 25%, as freight could be tolled several times crossing provincial borders. These cost increases come at a time when trade volumes are declining (see figure 1 below)) and companies are under pressure to meet their budgets.

Year on year South African Imports (Millions of Rands)

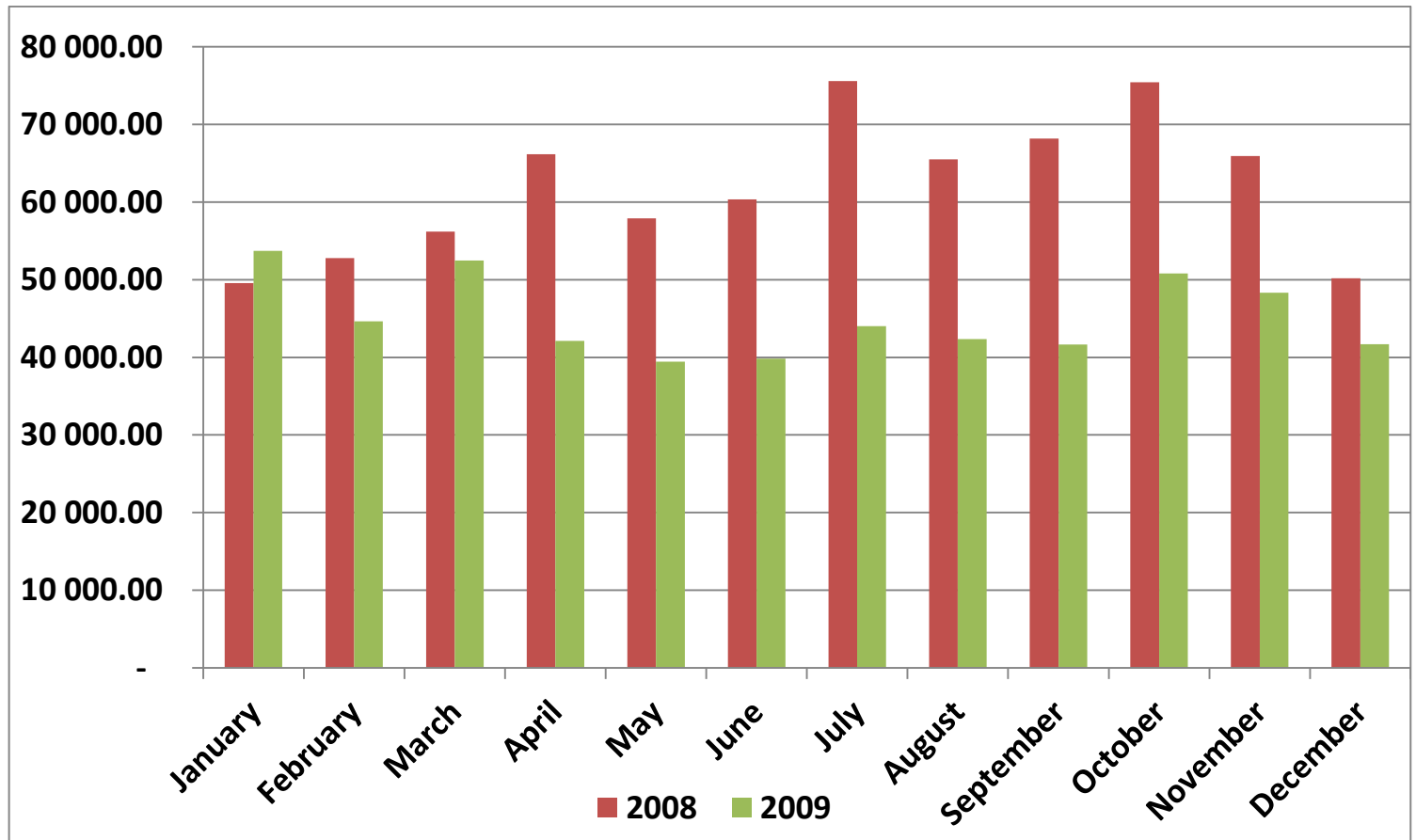


Figure 1: Year on Year South African Imports (SARS; 2011)

2.4 What are some of the challenges facing South African freight forwarders?

As indicated in Figure 1, the South African freight forwarding industry has been through a tough economic crunch with many new challenges coming to the fore. The current volatility of exchange rates presents a conundrum for international businesses (Hill, 2011). Companies need to introduce measures to mitigate the volatility in the international environment and spread their risks. Peat (2011) suggests that Greece has the potential to replicate the system-wide shock triggered by the collapse of Lehman Brothers in September 2008. With regard to this, we look at some of the structuring mechanisms that companies may implement to mitigate the risks of another financial crisis.

2.4.1 *Using financial instruments to mitigate risks*

Hill (2011) explains that when a company faces uncertainty about the future value of the home currency, they may utilise the forward exchange market to neutralise the exchange rate risk. This is just one of the ways in which a company may protect itself against unknown future exchange rate volatility. This does; however, have a cost implication and may increase the overall expense of doing business in the long run. Correia, Flynn, Uliana and Wormald (2011) have an opposing view with regard to hedging currency movements. Correia et al believe that competitors should be closely monitored and if your competitors are not hedging their risks, then it may be a good idea not to follow those tactics. If the Rand appreciates, then your competitors may reduce prices which you cannot afford to do as you have hedged, thus impacting on your costs and competitive position (Correia, et al).

Another major risk that all companies face in South Africa is that of non-payment from debtors. Typically speaking, the main asset on a freight forwarder's balance sheet is their debtor's book. According to the South African Institute of Race Relations (2011), liquidations have increased approximately by 25% annually. This is a firm indication that many businesses are struggling in the present economic environment. One of the avenues of alleviating this risk is to purchase credit insurance, thus ensuring the stability of the company in the event of a substantial bad debt.

A company's ability to borrow declines, as the banks become increasingly risk averse. This liquidity problem is becoming increasingly common as companies struggle to maintain or increase their financial resources. Correia, et al, advise companies not to be reliant on one bank or lending institution and should spread their options over a number of financial institutions.

There are other ways of improving a company's liquidity such as debtor finance. Madura, et al explains that banks or lending institutions will provide a loan to the company, secured by a cession and assignment of accounts receivable as security. Another form of financing is by using an accounts receivables book as security, which includes invoice discounting and factoring. Factoring typically involves the sales of accounts receivable to the lender with or without recourse to the borrower (Correia, et al, 2011). With invoice discounting, the financier will purchase a company's invoice at a discount, but the company will still be responsible for the collection and management of receivables, and the customers of the company may be unaware of this arrangement (Correia, et al, 2011).

2.4.2 *International footprint*

South Africa is increasingly becoming a platform into the rest of Africa. Ehlers and Lazenby (2007) note that since South Africa became a democratic country in 1994, nearly all trade and industry barriers with the rest of the world have disappeared. It is becoming increasingly important for South African companies to compete and collaborate with organisations globally (Ehlers et al, 2007).

With the increased competition both locally and internationally, freight forwarders need to embrace the idea that service levels need to be in line with international standards to service their clients. Many of the larger freight forwarding companies in South Africa already have parent companies (mainly European) which have forced them to adopt international standards. For the smaller and home grown local companies to compete against these larger companies, other strategies are needed.

Hill (2011) outlines some of the strategies that could be employed by these companies to compete against the bigger players, namely:

- Joint Ventures
- Mergers and Acquisitions
- Strategic Alliances

These strategies form the basis of the next research question which examines strategies that have been developed by freight forwarders to make them more competitive.

2.5 What strategies have been developed to make freight forwarding companies more robust?

The stark reality facing the freight forwarding industry is that change is inevitable and that strategies need to be implemented to manage this process. As outlined in paragraph 2.4.2, one of the main challenges facing the industry in the aftermath of the financial crisis is being able to compete internationally and locally.

A company that wishes to do business in a specific location needs to be aware of the global trade, monetary and investment framework prevalent there (Ehlers et al, 2007). This research focuses on three main strategies that have been utilised by the industry and attempts to evaluate how successful they have been.

2.5.1 *Mergers and Acquisitions*

According to Bower (2001), there are five main scenarios whereby a merger and acquisition (M&A) would take place. This research will focus on two of these scenarios as explained by Bower (2001). The first M&A strategy revolves around a geographic roll up, whereby a successful company wants to expand into new territories.

There are many recent acquisitions which support this theory such as Lonhro (a UK listed concern) acquiring a local Cargo agent (Richardson, 2011). In addition, Dachser, a large German based group, acquiring a local company called Jonen Freight who has been operating in South Africa for 30 years. The second strategy involves acquiring a company to gain market share (Bower, 2001). Additionally, there are numerous cases in South Africa where this has occurred, most notably the acquisition of Buffalo Freight by Unitrans (Venter, 2011).

This research will explore in more depth the reasoning behind these acquisitions. Literature suggests that these acquisitions, which have been made mostly by foreign entities, are attempts to infiltrate into the South African freight forwarding industry as a platform into the rest of Africa. This view is supported by Beinhocker, et al (2009) who argues that in the wake of the recession, many opportunities are presenting themselves, especially in the area of M & A.

2.5.2 *Joint Ventures and Strategic Alliances*

Joint ventures and strategic partnerships are becoming more apparent in the industry as companies seek to grow their market exposure both locally and internationally. This is especially true for freight forwarders who need a national and international footprint in order to service their clients effectively. A prime example of this is Sturrock Shipping, an established Cape Town based enterprise, which formed a joint venture agreement with Concemptum Logistics earlier this year (Newton, 2011).

Andrew Sturrock, the managing director of Sturrock Shipping described the joint venture as highly significant both for the local industry and for Sturrock Shipping. Concemptum Logistics, being an international group, will help establish Sturrock Shipping's offices in Johannesburg as well as give it international exposure throughout the world (Newton, 2011). Venter (2011) continues by saying that joint ventures are key to a successful understanding of local conditions.

However, there are pitfalls to joint ventures and strategic alliances. Bamford, Ernst and Fubini (2004) outline the four challenges joint ventures and strategic alliances that need to overcome in order to be successful:

1. Strategy - parent companies may have a different strategic direction, which may affect successful integration;
2. Governance - the joint venture (JV) may be jointly controlled, thereby complicating decision making. Parents may also have separate reporting standards and systems, processes and metrics;

3. Economics - transfer pricing may be an issue as well as performance of the JV may be less transparent; and
4. Organization - cultural differences need to be managed, as well as conflicting incentives and career paths (Bamford et al, 2004).

2.5.3 BBBEE

The economic empowerment of black South Africans has become a business reality and as such industry or sector charters have been introduced to guide companies in this regard (Correia et al, 2011). Broad Based Black Economic Empowerment (BBBEE) scorecards have also been developed to ensure that companies adhere to certain criteria and are recognised for their BBBEE policies. In relation to BEE financing, there are organisations such as the IDC, Business Partners and the Public Investment Corporation who increasingly promote the funding of these transactions (Correia et al, 2011). This research will investigate how freight forwarding companies are adapting and strategising around BBBEE and attempting to determine the degree of success of these deals.

2.6 Conclusion of Literature Review

The literature review clearly shows us that the South African freight forwarding industry has been greatly affected by the financial crisis of 2008. The crisis fundamentally changed the rules of the game for the industry and companies in the industry had to adapt to the new environment. New challenges have surfaced since 2008, making it even more difficult for companies in this segment of the market to compete and maintain market share. Companies have been forced to look at alternative forms of funding whilst dealing with a volatile labour force and ever increasing costs. Combine this with a skills shortage and greater local and international competition and it is apparent that organisations have needed to adapt their strategies in order to survive. Whether these strategies will protect these companies in the event of another financial crisis or whether these companies will flourish in an economically volatile environment, remains an unanswered question.

2.6.1 *Research Question 1*

In the wake of the financial crisis of 2008, to what degree and how was the freight forwarding industry in South Africa affected?

2.6.2 *Research Question 2*

What have been some of the key learning points for the freight forwarding industry during and post the global financial crisis of 2008-2009?

2.6.3 *Research Question 3*

What are the major challenges facing the freight forwarding industry in the current environment?

2.6.4 *Research Question 4*

What strategies have been developed by companies in the industry to make them more resilient in the event a similar financial crisis?

3 RESEARCH METHODOLOGY

The next section describes the methodology that will be used to conduct this research. In order for us to address the research questions put forward in the above literature, a qualitative approach is adopted. We will first analyse some of the literature around qualitative research to establish its relevance to answering the questions in the literature review. A review of the research design and research instrument to be used will then be discussed, followed by some of the issues surrounding data collection and analysis. In conclusion, the validity and reliability of this research will be proven.

3.1 Research Methodology

Due to the nature of the many of the research questions, a qualitative research methodology will be more effective. This study will not follow a case study methodology and will seek to form a generalist view of the industry, concentrating on the Gauteng and Western Cape areas. Cassell and Symon (2006), describes the goal of qualitative research as being able to see the research topic from the perspective of the interviewee. Willig (2008) continues by saying that qualitative research allows the researcher to interpret the perspective and individual interpretations from each participant, allowing the facilitation of insight and new understandings. This approach will allow the researcher to gain a more complete understanding of the nature of the problems and limits the possibility of unjustified assumptions, inappropriate research questions and false starts (Willig, 2008).

The data will be accumulated by conducting ten in depth interviews lasting between 60 and 90 minutes each. Open-ended questions will be used during the semi-structured interview. Kerlinger (1964) lists some of the advantages of having an open- ended question interview as being: flexible, having possibilities of depth, enabling the interviewer to clear up misunderstandings, enabling an interviewer to ascertain a respondents lack of knowledge and to detect ambiguity while encouraging cooperation.

Cassell et al (2006) have shown that the interview is ideally suited for topics in which different levels of meaning need to be explored. This is an important component as the research looks at an entire industry through the perception of managers from a variety of different sized companies.

3.2 Research Design

The research design will be in the form of an open-ended interview with the respondents. This format seeks to establish the different views of a phenomenon such as the Global financial crisis, from the perspective of different participants (Cresswell, 2003). This research design identifies a common, sharing group (freight forwarders) and studying how they have been affected by a mutual event (Cresswell, 2003). The main advantage to this research method is that most research participants accept this method readily as most participants providing information in their respective fields and are willing to discuss with outside parties the challenges and other issues in their professions (Cassell et al, 2006). Cassel et al (2006); however, outlines the disadvantage of feeling overloaded and over exhausted, as this method requires intense concentration and can be time consuming. Lastly, Willig (2008) highlights the problem of qualitative research as possibly having alternative interpretations of the data, as well as being concerned only with description and explanation, but not with prediction.

3.3 Population and Sample

3.3.1 Population

The population reviewed are South African freight forwarding companies of various sizes and who have been operating for longer than five years. The companies selected are listed below:

TABLE 1: SOUTH AFRICAN FREIGHT FORWARDING COMPANIES TO BE INTERVIEWED.

Company	Size	HQ Location
Anonymous 1	Large	Western Cape/ National
Broadspeed Logistics (Pty) Ltd	Small	Western Cape
Cargo Care (Pty) Ltd	Medium	Gauteng
Clearfreight (Pty) Ltd	Medium	Gauteng
Global Reach Logistics (Pty) Ltd	Small	Gauteng
Jonen Freight (Pty) Ltd	Medium	Gauteng/ International
Federal Clearing (Pty) Ltd	Medium	Gauteng
Schenker SA (Pty) Ltd	Large	Gauteng/International
Boyd Boss Freight (Pty) Ltd	Medium	Western Cape
Anonymous 2	Large	Gauteng/ National

3.3.2 Sample and sampling method (Purposive Sampling)

A purposive or judgement sample method will be utilised for this research, whereby certain samples, based on company size and location will be identified to answer research questions. Marshall (1996) indicates that this methodology is a more intellectual strategy than the simple demographic stratification sampling method. He (Marshall, 1996), continues by explaining that an appropriate sample for a qualitative study is one that adequately answers the research questions.

Notwithstanding that the sample size of 10 companies in an industry of around 300 companies represents a very small proportion of the industry, the targeted respondents comprise of companies who have been in the industry in excess of five years and have a thorough knowledge of their business environment.

Business owners or senior managers will be selected from each of the companies listed in table 1, as they have an in depth understanding of how the global financial crisis affected their business and how their organisation has adapted. Interviews will be requested via telephone or email to the different respondents. The designations of the respondents appear in table 2. If the respondents are not available, a suitable experienced candidate will be requested from the various companies.

The reasoning behind using senior management would be that they would typically have additional insight in their respective companies and are able to communicate the problems and challenges more effectively.

TABLE 2: DESIGNATION OF RESPONDENTS FROM EACH COMPANY.

Company	Designation of Respondent
Anonymous 1	Financial Director
Broadspeed Logistics (Pty) Ltd	Managing Director
Cargo Care (Pty) Ltd	Managing Director
Clearfreight (Pty) Ltd	Managing Director
Global Reach Logistics (Pty) Ltd	Managing Director
Jonen Freight (Pty) Ltd	Managing Director
Federal Clearing (Pty) Ltd	Managing Director
Schenker SA (Pty) Ltd	Financial Manager
Boyd Boss Freight (Pty) Ltd	Managing Director
Anonymous 2	Financial Director

3.4 The research Instrument

The semi-structured interview, which will be utilised as shown in the schedule provided in Appendix A. Wiggil (2008) explains that semi structured interviews are more popular as they are normally easier to arrange than other forms of qualitative research. Interview data can also be analysed in a variety of ways, but requires careful preparation and planning to be effective (Wiggil, 2008). The disadvantages of this type of qualitative research are that it does not provide the researcher with certainty and alternative interpretations are always possible (Wiggil, 2008). Wiggil (2008) also describes this type of research as being concerned with description and explanation, but not with prediction.

3.5 Procedure for data collection

The semi structured interviews will be pre-arranged with company owners or senior management of the companies. Two main areas have been identified for research: Gauteng and the Western Cape. Interviews will take place at the companies' respective head offices, their local Gauteng branch office or a pre-arranged venue agreed upon by the interviewer and respondent. The location and time will be decided by the respondent in order to ensure their comfort in an environment of their choosing. This will also alleviate the problem of interruptions during the interview as the respondent will be forewarned regarding the time and place of the interview. Interviews will be recorded when possible and hand written notes will be taken.

3.6 Data analysis and interpretation

This research will take the approach outlined by Rubin and Rubin (2005), whereby the interviews and literature are examined to gain ideas on which themes and concepts are identified to be coded. This analysis will allow key issues to be “clustered” and is the first step toward drawing conclusions. Miles and Huberman (1994), explain that codes are tabs or labels that help assign units of meaning to the descriptive information gathered during research. Codes are used to organise

the “chunks” of data and entails organising the data into some sort of categories (Miles et al, 1994).

Once we have coded the data, we will then follow the process as outlined by Rubin, et al (2005). Rubin, et al (2005) identifies five steps that need to be followed in order to interpret the data. These steps are:

1. Sorting and summarising:

This comprises the listing of main points in the text associated with the coded category and examines the summary to identify what is and why it is missing.

2. Sorting and ranking:

This would assist in generating additional ideas and identifying, if the perceived serious problems were addressed or ignored.

3. Sorting and comparing:

Once the preliminary ideas have been assessed from the examined sorted data, the data is then reorganised. This aims to identify that if we group the interviewee's by background characteristics, the coded data highlights any concepts, themes or events in distinct ways.

4. Weighing and combining:

This helps with synthesising different versions of the same event or separating explanations of the same concept or theme. This allows us to combine different events into a single descriptive narrative.

5. Integrating, checking and modifying:

After following the above steps, we will integrate different parts of our findings by firstly checking for accuracy and consistency and then modifying them, if we conclude the initial interpretations were not totally correct (Rubin et al 2005).

3.7 Limitations of the study

This study focuses on a relatively small group of individuals representing an industry consisting in excess of 300 companies throughout South Africa, whilst every effort will be made to appropriately represent the industry, the respondents cannot fully represent the entire South African freight forwarding industry.

The lack of generalisability (specifically to the whole of the country) of the results is a factor that has been taken into account. The study does not take into account many key industry players (the largest and second largest companies in the industry) and companies in the Kwa-Zulu Natal region, which may have been affected differently to their Gauteng and Western Cape counterparts.

Respondents may not be entirely open with regards to their company's performances and possible weaknesses, as they may choose not to disclose this information. This possible limitation would not allow a reasonable conclusion to be obtained as not all relevant information would be divulged.

3.8 Validity and reliability

3.8.1 *External validity*

Creswell (2003) identifies the threat of external validity as arising when the researcher generalises beyond the groups in the research to other groups not under study. The threat of external validity in the context of this research may occur when interviewing multinational companies. Their perspective of the global financial crisis may differ from country to country. In order to ensure we maintain a South African perspective, questions will be designed and communicated to respondents from a purely South African point of view, unless an international view is required. Another potential external validity threat may occur if the organisation being interviewed operates in more than one segment of the market or does not only specialise in freight forwarding. The viewpoint of this organisation may be different to the norm of the industry.

This threat will be addressed by fully informing the respondent beforehand that the questions will only be asked from a specific industry (freight forwarding) point of view.

3.8.2 *Internal Validity*

The threat of internal validation arises when inadequate procedures such as changing the research instrument during the process occurs, or possibly when the character of the respondents' change's during the interview (Cresswell, 2003). To ensure standardisation throughout the process, each interview structure will be replicated as much as possible and questions will be asked in a structured sequence. However, being open ended questions, the research will need to adapt to the nature of the interview. The researcher will use other sources of information such as press releases and annual reports (if possible) to ensure internal validity.

3.8.3 *Reliability*

Cresswell (2003) stresses that reliability plays a minor role in qualitative research, but it can check for theme patterns among multiple research instruments. A reliable survey is one that is relatively free of measurement error and yields the same results repeatedly (Fink, 1995). Kalof, Dan and Dietz (2008) outline the value of consistency in the research instrument. In order to ensure reliability, the researcher will use an external auditor outlined by Cresswell (2003). The researcher's supervisor will act as this auditor while reviewing and asking questions about the qualitative study before interviews are conducted. This will ensure that the instrument is consistent and reliable to the research in question.

4 PRESENTATION OF RESULTS

4.1 Introduction

The interviews conducted during the research indicated differing outcomes that the companies felt during and after the global financial crisis of 2008. Larger companies in the freight forwarding industry seemed to have been affected differently to the small and medium sized companies. The research also revealed many learning points from the financial crisis and some key challenges facing the freight forwarding industry in general. Additionally, there have been various strategies that have been developed by organisations in the industry to ensure that they will be better prepared in the event of a similar crisis. This chapter presents and describes these areas in four separate sections. Interviews conducted were with managing directors, financial managers and operational managers from various freight forwarding companies in the Western Cape and Gauteng.

4.2 The Impact of the Financial Crisis on the freight forwarding industry

The freight forwarding industry is predominantly made up of a few large multinational organisations and many small to medium organisations. With this in mind, the research clearly showed that the financial crisis affected the larger players substantially differently than the small to medium players. The report shall discuss each sub category in turn:

4.2.1 *Effect on large organisations:*

Many of the larger organisations are the international freight forwarders and many of them have parent or holding companies in Europe - mainly Germany and Holland. As such, these companies were more exposed to the European market and were affected by the economic slowdown far more than their South African based competitors. A key measure of this would be the turnover volumes that the large companies incurred during this process. The decrease in turnover from the larger segment of the market varied from figures from 10% to 30% (others chose not to disclose exact percentages). These figures included the airfreight cargo and sea freight cargo with sea freight being the larger contributor. Following on from this, respondents also indicated a significant drop in profitability as well as a decline in their respective client bases.

A major reason why these larger companies experienced a decrease in turnover volumes could have been the fact that they would normally cater for the larger corporate sector (such as large retailers) who felt the financial crisis more severely than their smaller, more specialised competitors. In addition to this, larger companies may have been more susceptible to price sensitivities from larger competitors, as their businesses were more volume driven and not very focused on personal relationships with their clients. As indicated previously, demand for commodities such as natural resources decreased substantially from 2008. South Africa, being a highly commodity intensive exporter would have been affected by this decrease in demand and many of the larger freight forwarding companies, who serviced this sector, would have been negatively affected.

A further consequence of the economic slowdown has been the retrenchment of staff and the reluctance of employers to raise salaries and employ additional staff. Most of the larger companies indicated, that whilst it is not their policy to retrench their staff, they have not been re-hiring staff when existing staff leave. It was indicated; however, that if there was a particular skill set that they were missing in their organisation, they would not hesitate to make an offer to any potential candidate.

The one area that nearly all companies increased was their sales staff. While headcount in most operational areas were decreasing, companies were hiring experienced sales staff to gain new business or to even bring clients over from the companies that previously employed them.

4.2.2 Effect on small to medium organisations:

The financial crisis in 2008 had a very different impact on smaller to medium businesses (SME's) in the industry. While all companies felt the impact of the crisis, the SME market did not see such a large decrease in turnover, and in fact, many in the industry actually grew their client base and turnover during the period.

Many of the SME's attributed this growth to an aggressive sales strategy, by mainly targeting clients from the larger organisations. While all respondents indicated an element of price cutting (especially amongst the larger organisations), the SME market indicated that they did not reduce their prices and instead focused on retaining and increasing the quality of services to their existing client base. The key to (slight) growth in this segment seemed to be selective client acquisition and retention, whereby the take on process of new clients, (and continuation of doing business with current clients) went through a more thorough process and increased background or security checks were done.

The key to the growth in this segment of the market seems to be the relationship factor that SME's had with their clients, compared to the corporate attitude the larger companies had toward their client base. Moving freight involves consistent communication with key stakeholders throughout the logistics process. One of the key advantages that SME's had was that most MD's or senior management were intimately involved in the process and were contactable virtually 24 hours a day. This seemed to have triggered a loyalty factor amongst their clients who were not as price sensitive (as they normally specialised in niche imports) and valued service quality over price.

4.2.3 *Other effects of the crisis:*

One of the major themes that were highlighted by all respondents were costs. The financial crisis forced the industry to take a closer look at all costs across the businesses. This led to the reviewing of; internal processes, rates charged to clients, borrowing and financial costs.

Internal processes included:

- Ensuring all staff were working as efficiently and effectively as possible and;
- Utilising the latest technology to ensure that the client's needs were satisfied.

The need to do this was twofold; to ensure that client satisfaction was being met, thus making client retention and acquisition so much easier. Secondly, to promote quality to a point whereby if prices were to increase, the client would still not feel the need to change service providers. In most cases, the respondents did not lower their rates, even though there was a trend from competitors to offer discounted rates to get the business. This is where the sales force became increasingly important and even more important was the need for closer client relationships. Senior executives (managing directors and financial directors) became increasingly more active with regards to visiting clients and attending to client's needs.

Borrowing and/or finance costs were also under scrutiny during this period. Banks' lending requirements became more onerous and when the need for increased credit was required, banks tended to be slower and more rigid in their responses to the industry in general.

This was seen as a problem for new client acquisition as additional funding was needed every time a new client was signed up. In addition to this funding problem was the general trend of slow payment in the industry, whereby the debtors of most companies stretched their limits to the maximum, thereby putting more and more pressure on the cash flow of the freight forwarding companies.

4.3 Learning points from the Financial Crisis

The freight forwarding industry has been known to adapt quickly to change as legislation, regulations and the economic environment is constantly in flux. As such, it comes as no surprise that companies in the industry quickly adapted to the financial crisis and some key learning points were taken out of this crisis.

4.3.1 *Liquidity:*

As stated above, many financial institutions became more rigorous in their lending criteria and companies were forced to make quick plans in order to obtain funding. Access to cash was identified as being a priority to survive in this new environment. The importance of having cash on hand was highlighted in two ways:

- It was found that post 2008, debtors in general tended to take longer to pay their accounts and companies needed to prioritise these collections in order to collect the amounts owing; and
- Financial institutions (mostly banks) tended to take much longer in making credit decisions when liquid cash was needed.

These two factors contributed too many freight forwarding companies struggling to pay their creditors. One of the principal creditors of a freight forwarder is Customs and Excise (a division of SARS). Freight forwarders typically would pay the VAT and Duty on behalf of their clients to Customs and Excise in order to clear the goods. If the funds to pay Customs and Excise were not made available - or there was late payment, Customs and Excise could suspend their account. Customs and Excise would only allow the freight forwarder 30 days to pay the VAT and Duty (a process called the deferment system) and failure to do so on the due date would mean the company would have to operate on a cash only basis.

Generally, the importer (client) would only pay the freight forwarder on delivery of the goods; so in essence, the freight forwarder was acting as a second tier banker to the importer. The importance of cash was therefore paramount and this became increasingly apparent as the crisis wore on. Debt collection is no longer debtor's clerk's responsibility. In many cases, the managing director or financial director of some companies would get directly involved in the management of debtors.

4.3.2 *Efficiencies and Costs:*

As previously stated, costs became increasingly important once the financial crisis hit South Africa. New cost efficient ways of doing things became a priority and more questions were asked from suppliers. The timing of Eskom's tariffs increases also made cost cutting a priority and simple expenses such as providing milk to the staff was reviewed. Along with these cost cutting exercises was the need to upgrade and improve Information Technology (IT). Investing in the state of the art systems which enabled companies to track and trace cargo as well as keep track of expenses became a key element throughout the industry. Management needed systems and processes in place to better understand the logistics chain. IT spend was one of the few "costs" that companies were willing to invest more capital into.

Staff were encouraged to come up with new and innovative ways to do things and many companies introduced risk assessment programmes to better perceive the risks of taking on new clients. Most freight agents interviewed also utilised a credit insurance company to insure their debtors. This enabled the company to trade with new clients knowing that if the client was liquidated, they would be covered for approximately 80% of the debt. Another way to improve cash flow was to utilise invoice discounting from the banks, whereby the freight forwarder would "sell" customer invoices to the bank and receive a portion of it upfront, instead of waiting weeks or months to collect amounts outstanding. This seems to becoming a normal practice in the industry, especially amongst the small to medium players.

4.3.3 *Relationships with partners:*

In order to successfully trade in the post 2008 financial crisis environment, respondents identified relationships with suppliers and customers as being of paramount importance. Allied to collecting outstanding amounts from debtors was the concept of knowing your client. As stated above, managing directors and financial directors of many companies became more involved in visiting existing clients and the sales side of the business. This concept is not new, but never has it been as important as post 2008. Furthermore, one respondent explained and outlined the concept of the 80/20 rule, whereby 80% of your business typically comes from 20% of your clients and those are the clients senior management should be attending to on a daily basis. Most respondents agreed that senior management needed to spend more time with key partners in order to understand their needs and guard against potential threats.

Having a close relationship with suppliers was also mentioned as being a significant issue. Leading on from the liquidity problem, freight forwarders found that they needed to meet more often and regularly with their main service providers (transporters, shippers, bankers). They needed to form close and trusting relationships with these key partners in order to have access to funds, negotiate costs and understand what service levels would be like moving forward. Another major supplier was Customs and Excise and the companies needed to understand exactly what new legislation and changes were happening at Customs and Excise in order to become efficient in their own companies.

4.4 Key challenges facing the industry

After evaluating the impact of the financial crisis, respondents were asked to provide some insight into some of the key challenges facing the freight forwarding industry today. The major challenges include the following:

4.4.1 BBBEE:

While most companies in the industry embrace the idea of BBBEE, they have mentioned that finding the right partner is extremely difficult. Some owners have sold shareholding in their companies to BBBEE consortiums and groups with the hope that this new partnership would obtain additional business. In most cases this has not gone according to plan and many of the owners are looking for other ways to improve their BBBEE score sheet and increase their status. One of the respondents interviewed mentioned that they have introduced an employee share scheme which formed part of their BBBEE strategy. This seems to have worked as long serving staff now have an equity stake in the business and productivity is high.

Nearly all respondents agree that BBBEE is a challenge that they have to face sooner rather than later, and that measures need to be taken in order to improve the current structures. Some of the larger freight forwarders, whose majority shares are held outside of South Africa, do have a major obstacle to overcome. The holding company typically does not want to dilute their shareholding, so the local company needs to find other areas in which to improve their BBBEE status without changing their shareholding. This is seen as a major obstacle in doing business and may lead to decreased investment into their South African subsidiaries in the future. To overcome this, some companies have opened BBBEE subsidiaries that tender for all the work where a certain BBBEE level is required.

4.4.2 Skills shortage:

One of the key themes that respondents mentioned was the lack of skills in the industry. Many talented youngsters are drawn more towards the “traditional” careers such as banking, law and accounting. Not enough talented youngsters are coming up through the ranks and adding value to the company and industry in general. Respondents indicated that in many specialist areas, there was a lack of succession planning. This reliance on experienced staff has led to a lack of certain skills in the industry.

This in turn has led to a high staff turnover in the industry as competitors are willing to pay top dollar for certain skill sets and “specialists” are difficult to find. Companies in the industry have had to inspect their internal people management processes and ensure that a proper staff retention strategy is in place.

Another worrying aspect that came out of the interviews was the problem of the skills shortage at certain government institutions such as Customs and Excise. The overall consensus was that much of the experienced, knowledgeable staff at the Customs and Excise had left for the private sector or were nearing retirement age. The problem with this is that the transfer of knowledge to new employees at SARS is not occurring and that a skills gap has developed. Clearing agents in the freight forwarding industry rely heavily on Customs and Excise to ensure their clients goods are cleared and checked correctly. Incorrect or slow processes will result in goods taking longer to reach their end destination and additional charges are incurred when goods are stopped or at worst confiscated incorrectly.

These additional costs would pass down to the end consumer, but the clearing agent involved could be blamed by the client. In addition to this, Customs and Excise are currently undergoing a massive modernisation program to update their systems and make the whole clearing process a paperless procedure. Part of this process is creating a call centre to manage any and all queries.

While this has massive benefits, it does remove the personal interaction that freight forwarders enjoy and the fear is that it may lead to a larger hierarchical structure whereby queries will take much longer to be addressed.

4.4.3 Increased costs/ Inflation:

Nearly all respondents cited increased costs as being a major challenge for the foreseeable future. Being in the transport industry, freight forwarders are highly susceptible to fuel price increases, toll roads and increased supplier costs (transporters, airlines, shippers). In addition to these are the increasingly higher electricity and wages costs which affect all industries in South Africa.

With rising increases in fuel and the inevitable toll roads looming, freight forwarders have had to focus on maximising efficiencies in their own businesses in order to maintain profitability. This has meant that in many companies, salary increases were minimal and that more focus was put into technology to automate certain processes. There has also been a stronger emphasis on re-evaluating existing suppliers and to review these suppliers constantly in order to consider if they have the best service offering. Most respondents indicated that it is very hard to pass on these additional costs to their customers as they operate in a competitive, price sensitive environment. However, their suppliers (shippers, airlines and transporters) were quick to change their prices if the fuel price increased.

Eskom's electricity price hikes also had an impact on costs, but this did not seem to be a major concern. The larger concern was around labour costs and striking activity from workers. The Transnet strike in May 2010 halted the industry for a full month. Exact estimates of the costs vary, but most companies in the industry could not work for that period and the backlogs took months to clear after the strike ended. The industry was severely impacted by the other strike action such as the fuel strike in July 2011. Whilst not crippling the industry, the truck drivers were threatened, so goods took much longer to reach their destinations.

4.4.4 Offering more value add services and having a greater geographic footprint:

In order to satisfy their customers, freight forwarders have had to adapt and expand their product offering to cater for their customer's needs. This is particularly essential for the smaller to medium players who have had to continuously compare their service offering to the larger multi-national players. Clients are increasingly requesting a "full house" of services. This could include other services such as trade finance, marine insurance and even "track and trace" technology for their goods.

In addition to the above, the world is becoming smaller and smaller with regards to global trade and trade barriers, this means new business opportunities are presenting themselves to local companies more frequently . This is a challenge for many of the smaller companies as they do not have the ability and resources to open up offices in all of these areas. The next section analyses some of the strategies that freight forwarding companies have developed to cater for these events and what steps they can take to react to a possible recurrence of the financial crisis of 2008.

4.5 Strategies that have been developed to make freight forwarders more robust

The financial crisis clearly impacted the freight forwarding industry. Companies in the industry have learnt from this and have become strategically aware of the way they conduct business to better prepare them for future occurrences of a similar nature. With a potential Eurozone crisis on the horizon, companies cannot become complacent. This research report shows a slight difference in the way the larger firms have changed and adapted compared to the SME's in the industry. These changes and strategic tactics can be broadly defined into five different areas.

4.5.1 Mergers and Acquisitions:

Larger companies in the industry have seen the financial crisis as an opportunity to increase market share. The reasoning behind this is to utilise their large resource base and thereby reduce costs. However, increasing market share through organic growth is difficult. Some of the larger companies have decided to take the route of “buying” market share through the acquisition of smaller companies. The larger organisations believe they can utilise their economies of scale to deliver a better, cheaper service. Having a larger client base also spreads the risk of bad debt and special care is taken in ensuring the clients are credit worthy, otherwise work is undertaken on a cash upfront basis.

SME's in the industry are not always in the fortunate position of having the funds available to buy other competitors; therefore they have to inspect other alternatives such as merging their company with another company that could add a competitive edge. SME's are able to predict the need to increase their national and international presence and are therefore continuously investigating avenues to satisfy their client's requirements. In order to do this, they need a presence in each of the major metropolitan areas such as Johannesburg, Cape Town and Durban. The only way they can achieve this is to merge with a company with a similar need in the other major centres.

This strategy also protects the company as a whole against a similar occurrence of the financial crisis as the different centres seem to have been affected differently to one another and spreading the geographic area of the company would reduce this risk.

Another reason for SME's merging would be that costs could be spread over a larger business entity and certain functions could be done more efficiently and effectively. Having a presence around the country would also allow the SME's to service their larger clients whom also have offices around the country. As indicated before, controlling costs have become a major challenge amongst freight forwarders and having a centralised centre to control non-core activities would alleviate this problem and make the company more competitive.

4.5.2 *Joint Ventures/ Members of trade networks:*

Some freight forwarders felt that instead of merging with another company, they would rather retain their ownership or shares and enter into a joint relationship with another freight forwarder, normally in a different geographic area. They would thus refer all their clients business in other centres to specific competitors with whom they had strategic arrangements with. This type of venture allowed the companies to keep their particular company culture intact and operate independently, but also allowing them to cater for their clients in other parts of the country and internationally.

A joint venture strategy also allowed the companies to specialise in their particular market or geographic segment in so as to maximise their expertise. The problem was to find uniformity in the way they charged their clients and also the service offering they provided.

The smaller freight forwarders agreed that being part of an international network was fundamental to remaining competitive. Various international trade networks exist and these are becoming increasingly popular amongst the smaller to medium players in the industry. Becoming part of a larger network has many advantages for the company. Foreign companies who are part of the network refer their business from Africa to the local South African company, which normally reduces the problem of having to undercut your local competitors to compete financially. This is usually a problem with a new client as there has been little or no relationship building. The second advantage is that it gives the local company international exposure. Many of the SME's frequently travel to foreign countries for conferences and meetings to get to know the different players in the network. It also exposes the local company to international best business practices and technology, globally. Thirdly, SME's have realised that because of their smaller sizes, they do not have the resources to properly cater for every type of market. Being part of a larger network allows them to offer services in many different destinations where local knowledge is fundamental to success.

SME's can thus concentrate on what they know best, moving and clearing goods in South Africa and can therefore minimise their risk of too much international exposure.

4.5.3 *Identify a specific target market and specialise:*

Traditionally, most freight forwarders have focused on general clearing and logistics. This meant that they would do work for any and all importers, no matter the type or volume of the goods. The trend is to focus on niche markets and have a speciality function with regards to what type of goods they would like to clear.

Recently it has become apparent that different types of goods such as motor vehicles, minerals, electronics and perishable cargo have very specific requirements with regards to warehousing, transporting and clearing. Companies have now started advertising and marketing themselves to very specific industries. This has seen some companies grow remarkably in certain market segments.

Freight forwarders who have taken the decision to specialise justify their decision as follows:

- Specialising in a particular industry allows them to focus and resource appropriately. They can then understand the particular industry (such as motor vehicles) extremely well and examine trends in that industry that may affect trade volumes.
- Knowing what type of clients make up the majority of their turnover allows them to buy and upgrade the necessary assets such as warehousing, trucks, lifting equipment and containers.
- Having a greater knowledge of a particular industry also allows the company to better communicate with the authorities in respect of tariff and customs codes, thereby making the clearing process more efficient and quicker.
- Freight forwarding companies can identify exactly who their target clients are and put together a sales and marketing strategy designed to appeal to a certain segment of the market.

- Advertising a company as being a specialist, also gives it greater flexibility with regards to pricing, as a premium price can be charged due to the specialist factor.

4.5.4 *Make use of specific financial instruments:*

Different financial instruments have always existed to enhance trade and make trade easier and less risky. Since the financial crisis, there seems to have been an increased move to ensure that liquidity, bad debts and client funding are covered. Three main financial instruments have been identified as the most commonly used by the freight forwarding industry:

Credit Insurance:

As bad debts and liquidations increased immediately after the financial crisis, as did the need to protect freight forwarders single largest asset, the debtor's book. Freight forwarders outlay a significant amount of funds in order to get their clients goods cleared at the Customs port for the VAT and Duty of the goods. This means that if they do not get paid by their client (debtor), they face a real problem of becoming insolvent themselves. In order to protect themselves from this eventuality, most freight forwarders purchase credit insurance. This financial instrument lowers the risk of a bad debt jeopardising the business and causing a cash flow problem. The credit insurance usually covered up to 80% of the bad debt and would typically be a requirement from a bank in order to obtain certain financial facilities with them. Many freight forwarders also use credit insurance companies as credit bureaus, whereby they are forewarned of the credit worthiness of new and existing clients. They are therefore better placed to make strategic decisions on whether to do the clearing of an importer or not. The use of credit insurance to protect against bad debts has become increasingly popular amongst freight forwarding companies.

Trade finance:

As indicated previously, the financial crisis caused many financial institutions to become stricter and more rigid with regards to their lending requirements. This was seen as a detriment to trade, as importers now had less access to funding in order to purchase goods from overseas suppliers. Some freight forwarding agents saw this as an opportunity to fill a gap.

These freight companies either started offering trade finance or partnered with a trade financing company in order to offer an additional service to their clients, as well as make a fee on the transaction. Basically, trade finance involved purchasing the goods from an overseas supplier on their client's behalf. They would typically take the goods as collateral during this process and charge a financing fee for this transaction. They would then deliver the goods to the client and the client would pay for the services rendered as well as a fee for outlaying the funds on their behalf.

The advantages of this would be:

- The importer has the ability to purchase the goods from their supplier overseas and only has to pay for the goods once they were in their possession.
- During the whole logistics cycle, the goods would act as collateral for the freight forwarder so that they would not have to take the full risk of non-payment themselves.
- The freight forwarder would make an additional margin from the transaction over and above the usual freight fees.
- It would help with client retention as it would be quite difficult for importers to change freight agents once the whole process was done for them.

The disadvantages would be:

- The freight agents would have to get additional banking facilities or raise additional capital in order to pay for the goods.
- Trade finance is a specialised field and additional resources and staff would need to be employed to monitor the transactions.

Invoice discounting/ factoring:

In order for freight forwarders to have access to liquid funds (i.e. cash) they would need to borrow from various financial institutions. Bearing in mind that liquidity was seen as a major challenge to the industry, freight forwarders needed to find a way to have access to funds quickly in order to pay their suppliers (transporters, shippers, airlines and Customs). Many freight forwarders use invoice discounting to assist with their cash flow. Invoice discounting or factoring involves selling your debtors or invoices to the bank, at a discount in order to receive the funds immediately and assist with cash flow in the business. The bank would then give the freight forwarder a percentage of the debtor's book as cash up front and they will then collect the outstanding amounts.

This form of cash flow management works well with many freight forwarders, as long as the debtors or clients they deal with are stable companies. If some of those debtors became high risk clients and their credit worthiness was questioned, the amount the bank would outlay to the freight forwarder would become less and may impact upon the cash flow of the company. An increasing amount of freight forwarders are seeing this as a strategic, financial tool to manage their cash flow and since the banks' lending requirements have become stricter since the financial crisis, this financial instrument is seen as one of the most efficient ways of controlling the liquidity of a company.

4.5.5 *Relationships with clients and suppliers:*

During the interview process, the need for closer relationships with clients and suppliers was emphasised. The financial crisis showed the industry that during tough times, companies would react in different ways. This could be in form of a customer stretching their credit limit to the maximum before paying overdue accounts or even suppliers increasing their prices at very short notice. Respondents outline the need to form closer relationships in the following ways:

Clients:

Understanding a client's needs with regards to the service they require, the price they are willing to pay and the type of business they are in has become an important strategy. Freight forwarders must not only do a due diligence credit check and background check to assess the credit worthiness of clients and they also need to understand the industry and business that the importer operates in to make an informed decision on the risk worthiness of the client. The only way to do this is to physically visit the client and meet consistently with them to fully understand the way they conduct their business. Nurturing a closer relationship with the client also helps the freight forwarder to understand their clients' needs and may also serve as an early warning system in the event they are approached by a competitor with a better pricing structure.

As previously discussed, executives have become more involved in the client acquisition and retention process. Having a closer relationship with their clients has not only become a strategic imperative, it has evolved into a norm in the industry whereby importers of all sizes want direct access to the decision makers of a business. This relationship focus is seen as a major element in ensuring that if another crisis hits the industry, the freight forwarder will know exactly where their client stands financially and will at the least, inform the company if problems of payment or pricing exist.

Suppliers:

The main suppliers to the freight forwarding industry include:

- Banks
- Insurance companies
- Brokers
- Other financial institutions
- Airlines
- Shipping companies
- Transporters
- Customs
- Transnet (National Ports Authority, South African Port Operations and Transnet Freight Rail)

Each of these suppliers serves a very specific purpose and a freight forwarder would not be able to operate without them. The financial crisis caused some of these suppliers to re-evaluate the way they were doing business and in some cases led to increased prices or changes in the trading terms and conditions. Freight forwarders have learnt from this and in order for these challenges to be confronted effectively, a better understanding of the suppliers is needed. Many freight forwarders now meet regularly with their bankers and brokers to discuss their requirements and to ensure that they know where they stand.

Monthly association meetings like SAAFF (South African Association of Freight Forwarders) are becoming more popular as well as a quarterly meeting with Customs and Excise to better understand what changes to policy and requirements are being implemented. All these strategies are not new, but have increased in importance to ensure that the freight forwarder is better prepared and has sufficient information if any major changes were to take place.

4.6 Summary of results

It has been identified that the freight forwarding industry was impacted by the financial crisis. Companies of various sizes were interviewed and different viewpoints were analysed. Certain factors stood out across the respondents interviewed and a pattern emerged indicating that companies in the industry needed to adapt in order to survive in the changed environment.

A broad spectrum of respondents were interviewed, and it emerged that large companies were affected quite differently compared to smaller to medium companies. It was highlighted that the business and trading environment had changed substantially since the financial crisis of 2008.

The interview questions revolved around three main topics: learning points taken from the financial crisis, current challenges that companies faced today, and strategies that companies have undertaken to guard against a similar occurrence.

The results showed that some of the key learning points that freight forwarders took out of the crisis was the need to be liquid and have access to financial resources. This went hand in hand with the need to collect outstanding debt promptly. Along with this key requirement was the need to control costs, including supplier, financial and staff costs.

It was noted that the main challenges that the industry faced, was finding the right BBEE partner. This was seen as an important task, along with finding the right people to fulfil specific specialist roles in the company. The need to increase a company's national and international presence was also seen as a vital challenge, as well as growing the service offering to the customers in the industry. The biggest challenge that affected most companies was the problem of escalating costs and inflation in the country. This normally went hand in hand with strike activity which in turn leads to a loss of productivity.

The respondents identified some of the key strategies that they have incorporated into their companies in order to guard against another crisis. Amongst these was the strategy of forming partnerships through joint venture or networks to grow market presence. Adding to this was the need to ensure existing relationships with clients and suppliers were fostered and nurtured. Some companies even acquired or merged with other companies to grow or increase efficiencies. Using specific financial instruments and specialising their product offering has become a strategic objective of many companies in the industry.

From the interviews, it is noted that the industry in general went through many changes and faces many challenges and companies have to adapt to the new environment in order to survive.

5 CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The current business environment of the freight forwarding industry is still undergoing changes and fluctuations. The industry is one of the oldest in the world and as such has had to continuously adapt to local and international trends. Companies interviewed bear testament to this resolve and have adjusted accordingly. The financial crisis affected the whole industry in different ways, but as long as there is trade between South Africa and other nations, there will be a need for the freight forwarder. Many learning points were taken from the crisis and companies in the industry have had to make some difficult business decisions to ensure their sustainability. However, in most cases the SME respondents have shown robust growth since the crisis.

Based on the current research, the freight forwarding industry still faces many major challenges which they will have to overcome in order to survive. These challenges will not be easy to overcome and in many cases the regulatory environment plays a major part for the continued success of the industry. Strategies have been suggested and implemented to make companies more robust and competitive in the post 2008 environment, but only time will tell if these strategies are good enough to protect these companies in the event of a similar crisis. Below is a presentation of the conclusions of this study as to the impact of the crisis on the industry and what has happened since then.

This chapter starts with a section on the conclusions of the study undertaken. Conclusions have been drawn from the data collected through the various interviews conducted, the literature reviewed, and the combination of these two sources of information. After the conclusion is a section with recommendations for new and existing companies in the industry as highlighted in section 1.4. Finally, this chapter finishes with some recommendations for further study to follow on from this research.

5.2 Conclusions of the study

The companies interviewed all felt that the financial crisis played a role in changing the way they did business to a larger or lesser degree. While the smaller to medium sized companies did not feel the financial crisis had a huge impact on them, they did feel the macro environment had changed. The larger companies who had higher overheads felt the full effects of the crisis. The consequences of this being an introspective focus on their business processes and costs. This led to some retrenchments and a halt on salary increases for a period of time. Two of the companies interviewed had to lessen their staff's salaries in order to not retrench other staff members. One of the respondents even commented that the financial crisis was good for the industry as it got rid of "all the rats and mice" operating in the industry. This was in reference to all the quick start-up companies who started up in the industry without the necessary knowledge, experience and financial backing and who started to give the profession a bad reputation.

Several learning points were taken from the crisis. Respondents generally commented that the need for liquidity became a priority during and after the crisis. This was due to the fact that many of their clients started “stretching” their payment terms, which in turn put pressure on the freight forwarders cash flow. Many so called “partners” also showed their true colours shortly after the crisis by making their lending criteria stricter. The result of this was that other financial and fixed assets were tied up by these financial institutions as they needed more security in order to obtain additional funding. During this time, many companies scrutinised their cost structures and cut down on unnecessary expenditure. One of the interviewees went as far as limiting the amount of milk that employees could use in the office as it was felt that this was an unnecessary expense.

The key learning point that was highlighted by many of the respondents was the need to foster and nurture relationships with all stakeholders. These included: banks, clients, Customs and Excise and suppliers. Since the banks were becoming stricter on their lending requirements and freight forwarders needed access to cash quickly, it was vitally important to ensure that both parties know where they stood.

Monthly meetings became a regular occurrence and senior management started taking a more hands on approach. The same could be said regarding clients, or debtors who owed the company outstanding money. Senior management has to get more involved in the collection and management of key clients. Lastly, respondents felt that they needed to understand Customs and Excise and other suppliers regarding their costs and regulations.

There were many factors that respondents identified as being challenging in the current environment. One of the key challenges that are pertinent to all South African companies is BBBEE. While there seemed to be limited success stories regarding successful BBBEE partnerships, the partnerships that did seem to work was when a stake holding in the company was shared with long standing employees and staff members who had been with the company for a number of years.

Shareholding given to BBBEE consortiums with the hope of attracting additional business through networking and relationships seems to have failed more often.

Another key challenge that the industry faced was the loss of experienced personnel and lack of specialised skills throughout the industry. A key aspect that was identified was the fact that it was becoming more difficult to attract graduate level candidates into the industry, as there seemed to be a perception that freight forwarding involves lots of work with very little reward. Customs and Excise seems to have also lost many of their experienced staff to the private sector in recent years. This aggravates the problem of quality service being delivered by one of the key parties in the freight forwarding industry as it seems to have led to additional time wastage, resulting in additional costs being incurred by the freight forwarder and ultimately the importer.

Inflation and increased costs was also listed as a major challenge. Coupled with this, was the increased strike action and wage disputes causing much disruption and expense to the industry. Although respondents could not quantify the impact of the proposed toll fees, they generally believe that it will cause additional costs to be passed down to them and ultimately the end user of the imports.

For the smaller to medium companies in the industry, the need to offer extra “value-add” services has become a major issue. Clients want a full house of value add services in addition to the freight forwarding. This has become a problem with the smaller players in the industry as they do not always have the resources to offer these other services. In addition to this, respondents cited the issue of having offices or at least a presence in major trade cities around the world. This comes in the wake of South Africa opening up its borders to an increasing amount of foreign countries. It has become increasingly difficult to cater for all these locations as a small company, so strategies need to be developed in order to support their clients in these locations.

For companies in the industry to survive another potential crisis and to thrive in the current environment, several strategies have been identified. Respondents from the larger companies in the industry have used an acquisition strategy in order to buy up additional market share and fully utilise the resources at their disposal. To gain a greater national and international presence, companies have merged with other like-minded companies, typically in a different geographical location in order to increase their footprint both locally and internationally.

The smaller, family owned companies seem to have gone the way of forming joint ventures with other companies in order to keep the shareholding in the company intact, while still growing their geographic presence. Most SME companies ensure that they belong to an international network in order to gain international exposure while retaining their local expertise. This is seen as the best way to ensure that the smaller companies are aligned with international trends and practises.

Specialising in specific market segments is also identified as being a strategy to differentiate and offer unique services to a specific industry. This goes hand in hand with fostering a closer relationship with suppliers and customers. Respondents identified the need to understand client's businesses and needs, in order to gain and retain the business. In order to do this, a full understanding of the market their clients' operate in is needed.

Finally, there has also been a move to focus and utilise existing financial instruments more efficiently. The use of credit insurance to guard against bad debt has become an industry norm and plays a vital role in the securitisation of this asset so it can be ceded to the banks for funding. In addition to this, the use of invoice discounting and factoring has also become popular. These instruments assist the freight forwarder in getting pre-funding from the banks (or other financial institution) so they can have access to liquid funds and not worry about when their outstanding debt will be collected. To assist importers with their funding requirements, the use of trade finance has become a common strategy. This instrument allows importers to fund their purchase of overseas product without outlaying their cash and therefore giving them time to receive and sell their product to the end user.

5.3 Recommendations

This research report has produced findings that are most relevant to new and existing freight forwarding business owners and managers operating in the South African trading business environment.

The study has found that all freight forwarding companies were impacted to a lesser or greater degree by the financial crisis of 2008. A recommendation to all new entrants entering the industry would be to ensure that they have the right blend of experience and expertise before attempting to enter the industry as it is highly specialised and competitive. Many of the interviewees have previously been through an economic recession and therefore were more experienced in dealing with a crisis of this nature. Existing and established freight forwarding companies are encouraged to ensure that they have the right blend of youth and experience, as this type of succession is seen as one of the key challenges facing the industry.

A key learning point and challenge that the financial crisis showed companies, was that cash is king and liquidity is the life blood of most organisations. It is therefore recommended that companies ensure that they have access to liquid assets, either through their shareholders funds or other lending institutions, and that these funds are easily and quickly available for when the need arises. The financial crisis showed that the financial sector made the establishment of credit lines far more difficult, so a close relationship and possibly multiple credit lines are needed in order to ensure a constant flow of liquid funds.

A formal qualification should also be introduced into the industry to ensure a certain entry level of competence and to encourage graduates who wish to pursue a career in freight forwarding or logistics. These qualifications must be of an international standard, in order for graduates to utilise their skill set anywhere in the world. This type of qualification will hopefully entice potential candidates into the industry and give them an introductory overview of a career in freight forwarding.

The financial crisis also showed the industry that significant bad debts can sink a business (especially when the debtors book is the largest asset) very quickly and especially during tough economic times. Insuring the company's debtor's book has become a key strategic thrust in risk management and increasingly more financial institutions are suggesting that freight forwarders take out credit insurance. This financial instrument is highly recommended as a tool to manage a company's credit lines and ensure there is reasonable control when granting credit, especially to new, unknown clients.

Living in South Africa has many unique challenges. One of the realities that we as South Africans face is to correct the economic and social imbalances of the past. A large driver of this has been the implementation of Broad Based Black Economic Empowerment (BBBEE). Based on the respondent's interviews, it is highly recommended that when pursuing such partnerships, that loyal, long serving staff be included in the implementation of such ownership strategies. These types of empowerment programmes seem to be mostly successful and rewarding when pursuing a strategy such as BBBEE.

Throughout the research, it was found that small to medium companies faced very different challenges when compared to the larger companies. One of the key challenges was finding ways of offering an international product to its customer base whilst still retaining their own culture. In order to achieve this outcome it is recommended that companies effect these strategic partnerships or joint ventures. The important factor in this is to ensure that there are synergies and cultural fits between the companies. This will ensure that there is a basis of commonality between the companies and thus increase the chance of a successful partnership. These types of arrangements are becoming increasingly important amongst the SME companies in the industry in order to compete in the international environment.

Lastly, it is highly recommended that all companies in the industry maintain close relationships with their clients and suppliers. This would typically be in the form of attending Customs stakeholders meeting held on a quarterly basis at Customs. These forums are very informative and keep the industry up-to-date on all new regulations, legislation and system changes. Another way to gather information is to attend the monthly SAAFF meetings where the key issue regarding the industry is discussed and expert speakers are invited to give presentations. Another significant event in the freight forwarding calendar is the annual SAAFF conference held in different locations around the country. Again, industry experts are invited to attend and training workshops are provided for interested parties.

The current business and trading environment is one that is constantly changing. Macro factors such as the Euro debt crisis, a Chinese economic slowdown and even local government regulations can have an important impact on how the freight forwarding industry continues to operate. This research has given an indication on what a financial or similar crisis might do to the freight forwarding industry and that companies in the industry can learn and prepare in case a similar incident occurs.

5.4 Suggestions for further research

There are areas that have not been mentioned in this study that relate to the freight forwarding industry. A few areas of study that may further benefit the freight forwarding industry are listed below:

- Regional trade between the SADC countries and the barriers between these countries;
- The sustainability of freight forwarders in funding the VAT and Duty of importers in the South African environment;
- The impact of the new Companies Act, Customs Bill and other legislation pertaining to the freight forwarding industry;
- The emergence of Maputo as a major regional port, and how this will affect South African ports such as Durban and Richards Bay;
- The rise of the Chinese Rmb (Yuan) as a trading currency and the impact on the US Dollar and companies who trade in US Dollars;
- The effect of protectionist trade measures on importers in South Africa;
- The impact of an economic slowdown in the Eurozone, on trade in South Africa;

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7 APPENDIX A

Letter to Respondents

Dear Respondent,

I am currently completing my MBA at Wits Business School, Parktown. Part of my course involves a thesis on the Impact of the financial crisis on the freight forwarding industry. I have identified [*respondents company*] as an organisation that fits into the criteria of my research. I would be grateful if you could take the time for a 60 to 90 minute interview to assist me in gathering the data I require for my research. I understand that you have other very important priorities, but I would be extremely appreciative if you could make this time available for me.

All information gathered will only be used for research purposes and please be assured that confidentiality will be maintained throughout the research process. The questions themselves will be focused more on an industry perspective of events and not specific to any individual company.

I will be available to meet you at a location and time of your convenience.

Thank you for your assistance.

Yours Sincerely

Francis Kingston

Cell: 082 556 2269

8 APPENDIX B

Actual Research Instrument

Interview Questions

- How was your company affected by the global financial crisis in 2008?
- Was your company affected financially and to what degree was it affected?
- Have you changed the use of financial instruments since the crisis and if so, why?
- What are some of the key learning points you took out of this crisis?
- Was your company involved in any major restructuring in the last 3 years?
- How has the decrease in trade volumes affected your business?
- What has your company done since the crisis to guard against a similar occurrence?
- What do you see as some of the major challenges facing the industry today and in the future?

9 APPENDIX C

Table 3: Consistency Matrix

Research problem: Analyse and evaluate the impact the financial crisis had on the freight forwarding industry in South Africa and identify what organisations have learnt and implemented to make their companies more robust.

Sub-problem	Literature Review	Research questions	Source of data	Type of data	Analysis
Evaluate the impact of the financial crisis on the freight forwarding industry.	Bermann and Martin (2010) Beinhocker, Davis and Mendonca (2009) Venter and Naidu, 2011 Madura and Fox (2011) Botti (2011)	In the wake of the financial crisis of 2008, to what degree and how was the freight forwarding industry in South Africa affected?	Semi Structured interviews Press Articles Company Brochures	Qualitative	Coding Sorting, Ranking, Comparing Weighing and combining Integrating, Checking and Modifying. Rubin and Rubin (2005)
Identify what companies in the industry have learnt from this experience and recognise the main challenges they face.	Hill (2011) Correia, Flynn, Uliana and Wormald (2011) Ehlers and Lazenby (2007)	What have been some of the key learning points from this global phenomenon?	Semi Structured interviews Press Articles Company Brochures	Qualitative	Coding Sorting, Ranking, Comparing Weighing and combining Integrating, Checking and Modifying. Rubin and Rubin (2005)

Evaluate what strategies have been developed to make organisations more robust in the event such a crisis should occur again.	Ehlers and Lazenby (2007) Bower (2001) Newton(2011) Bamford, Ernst and Fubini (2004) Correia, Flynn, Uliana and Wormald (2011)	What changes and strategies have been developed by companies in the industry to make them more robust in the event a similar occurrence happens again?	Semi Structured interviews Press Articles Company Brochures	Qualitative	Coding Sorting, Ranking, Comparing Weighing and combining Integrating, Checking and Modifying. Rubin and Rubin (2005)
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