

*A glimpse
at some early
influences on the
airfreight
forwarding
business.*

It's a safe bet that 5,000 years ago, enterprising traders in China and Assyria hauled bags of goods from city to city, carrying at least some of the contents as consignments. The principles of forwarding may have originated centuries ago, but the business as we know it started only recently.

Today's largest multinational freight companies trace their lineage back to the mid 19th century when three innovations: railroad, steamship, and telegraph, helped the world into the industrial age and opened the way for new systems of trade.

In Asia, Nippon Express began life as Riku-un Moto Kaisha at the beginning of the Meiji Period in 1872. It was the only firm authorized to transport rice in Japan. That same year, the first railway linked Tokyo and Yokohama and the firm soon found itself moving horses, as well as rice, over Japan's expanding rail network.

With offices and warehouses at all of Japan's rail stations, the forwarder, which changed its name in 1875 to Naikoku Tsu-un Kabushiki Kaisha, was able to transfer loads of rice onto horse-drawn wagons and later, trucks, for delivery to consignees. Other companies were allowed into this domestic business only after Nippon Express became a public corporation in 1950.

SEEDS IN A FIELD

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Meanwhile, in Europe in 1870, Gottfried Schenker founded the company in Vienna that still bears his name. By the end of the 19th century, his firm was moving rail consolidations throughout Europe and from the Atlantic Coast of France into the Ottoman Empire. Schenker was the first to consolidate rail shipments in Europe and his firm introduced many of the forwarding skills and practices the industry uses today.

Danzas, traces its history back even further to 1815 when founder, Louis Danzas joined the Alsatian transportation company Michel l'Eveque. In 1840, Danzas had become a partner and 6 years later, the firm of Danzas and l'Eveque was carrying mail from le Havre to New York.

The Cowboy Way

In the less refined environment of the American West, riders began carrying mail and parcels on horseback between St. Joseph, Missouri and Sacramento, California, in 1860. However, the Pony Express ceased operations the following year later when a telegraph was installed between Omaha and San Francisco.

Then, six years later, Wells Fargo & Co. bought the stagecoach and Pony Express operations started by Ben Holladay. Seven of the express companies from that era, including Wells Fargo, were merged into a nationwide organization in 1914 at the direction of the US Government.

The new firm was called American Railway Express Agency, which at its peak in 1953, had 15,200 offices, 58,500 employees and each day used a network of 179,686 miles of railroads, 112,364 miles of airline routes, 18,628 miles of truck lines and 12,137 miles of water routes. REA Express operated in the United States as the designated forwarder and wholly owned subsidiary of the railroads in much the same way that Schenker



& Co. operated in Germany after its takeover in 1931 by Deutsche Reichsbahn.

To The Skies!

The business of forwarding airfreight did not get off the ground, so to speak, until the First World War showed the potential of flight and spawned aircraft manufacturing companies in Europe and America. Around 1920, two British firms, aircraft maker Handly Page and shipping company Instone, began flying from London to Paris and Brussels. They soon began advertising for agents to handle both passengers and cargo.

In those days, agents typically received 10% of airfreight charges or passenger fares on standard routes and 5% for charter flights, says Richard Malkin, the 90-year-old editor of *CNS Focus* who has been covering airfreight for over 50 years.

Elsewhere in Europe, Danzas began transporting cargo by air in 1920, offering an airfreight connection between France and England. In 1922, Schenker flew the first airfreight shipments in Germany and, in 1925, became the first forwarder to establish its own airfreight terminal at Berlin's Tempelhof Airport.

In the United States, the first airfreight consolidation was an unsuccessful effort in 1919 by American Railway Express to fly 500 kg of cargo from Washington to Chicago. It ended with the agent having to explain how a frozen radiator grounded the flight.

Still, by 1931, shippers in the US were flying over 1 million pounds of air cargo annually. Ford Motor Co. had its own forwarding subsidiary that was averaging over 3 million pounds of air cargo a year by 1930. During the early 1930's, airfreight represented 4% of all US air traffic revenue - about the same as it does today.

In 1934, Chester Mayer left his job at a New York customs broker and started Air Express International (AEI). AEI made a \$35,000 profit in its first year and Mayer figured he had a good idea. Among other ventures, he drew up a special "Zeppelin Tariff" promising 2-day shipments to Europe. He withdrew it in 1937 immediately after the Hindenburg disaster at Lakewood, NJ.

More War, More Freight

The end of the Second World War brought a surplus of increasingly capable aircraft, unemployed pilots and a strong demand to move cargo. Forwarders in Europe had agreements with ocean, rail, and air carriers to receive commissions for freight tendered, according to Mr. Malkin.

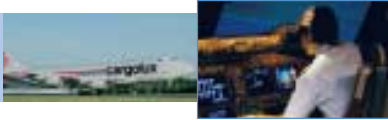
However, US forwarders had no agreements regarding air cargo but were willing to fight for them. Shortly after the Bermuda Air Agreement was signed in 1946, IATA's North Atlantic Traffic conference agreed to pay accredited forwarders 5% for freight on scheduled flights and 2.5% for shipments on charter flights.

To get domestic cargo authority from the Civil Aeronautics Board, American forwarders fought the established passenger airlines, American, Eastern, TWA, and United. Those carriers believed that their cargo revenue was in jeopardy from forwarders, who they suspected were in concert with upstart cargo airlines.

It took four years for US forwarders to win CAB authorization. John C. Emery, Sr., a former REA executive, received the first of about two dozen certificates awarded in 1948 on a 5-yr experimental basis. The following year, the CAB granted operating authority to four all-cargo airlines: Airnews, Flying Tiger, Slick, and U. S. Airlines. Airnews and U.S. Airlines went out of business in 1951 and 1952. Slick lasted until 1965 and Flying Tiger



Picture: Schenker



until 1989 when Federal Express acquired it. Domestic US forwarders were required to have CAB certificates until the air cargo industry was deregulated in 1978.

In Europe, Schenker had already received IATA Agency certification in 1947. By 1952, it had begun airfreight consolidations for itself and in combination with other German forwarders. By 1957, it had withdrawn from the airfreight community and was organizing its own consolidations. By the end of the 1960s, it had become the largest independent German consolidator.

Meanwhile, international airfreight forwarding caught on much later in Japan. The desire of local manufacturers to export to the United States pushed Nippon Express to enter the international business, opening its first subsidiary in New York in 1962. Even so, the New York office operated mainly for passengers until Japanese forwarders were eventually permitted to make joint consolidations and achieve lower rates.

Big, Really Big

It was not until 1978 when Narita Airport opened that cargo volume to North America increased dramatically, says Nobuki Ando, general manager of the Seattle Branch of Nippon Express. Nippon's largest customer in those days was Canon. The Japanese forwarder's worldwide expansion coincided with Canon's growth. In 2002, Nippon edged out Danzas AEI to become the world's largest forwarder. Coincidentally, the number two competitor had also adopted a piggy-back growth strategy in its early days.

"AEI expanded internationally on the back of Caterpillar," says Günter Rohrmann, formerly President and CEO of AEI and now COO of global customer solutions for DHL. Mr. Rohrmann began working for AEI in Germany in 1961. At that time, he says, Caterpillar went global and opened distribution centers around the world. "If we didn't go overseas, someone else would have handled their freight."

"Airfreight forwarding really got started in the domestic



Picture: Schenker

US," adds Joseph Berg, who was AEI's Vice President of Europe, Middle East, and Africa when Mr. Rohrmann was hired. "When I opened the European office in 1962, we didn't have much competition. Europe didn't have our geography. Their transportation system was geared to shorter distances and they used trucks. Whereas in the US, we had longer distances and needed airplanes.

"What really made the airfreight business go," says Mr. Berg who later became president of AEI, "was the introduction of the 747. Until that time, aircraft had no real capacity. Larger aircraft and electronics have really made a difference." They have also changed the fundamental nature of the business.

Radio Days

"In the past," says Mr. Ando of Nippon Express, "There was less capacity available and airlines were in a stronger bargaining position. Now, the relationship between airline and forwarder has changed. Forwarders have ample choices when sending cargo to a particular destination and our bargaining position is stronger."

"Getting business was also much easier 30 years ago," Mr. Ando continues. "There weren't as many competitors. Nowadays, customers can get more information over the Internet, like transportation costs and regulations for importing and exporting to various countries. We forwarders used to provide all of that."



Recent acquisitions and mergers have reduced personal contact in the business, adds Mr. Rohrmann. "Many things are automated now and, in a way, that is good. The industry is more professional. However, because everything has grown much bigger, decisions are not made on a personal basis.

"When a customer wanted to go outside of his relationship in the old days," Mr. Rohrmann continues, "He would call another forwarder and ask the price for a single shipment. One man could decide who got the business then. Today a company has two or three providers and whoever signs the order can select from those partners based on what a traffic committee has decided. 'The airline-forwarder relationship used to be a personal thing,' Mr. Rohrmann says. 'It wasn't uncommon for a freight manager and a forwarder to have the same jobs for 10 years and to develop good friendships.

Show Me The Money

"Today, we push hard for e-booking so that we reduce the personal involvement," Mr. Rohrmann continues. "For each shipment, you can work at a cost you can afford. However, you must automate to do this. One way is with e-booking. This involves fewer people than in the old days when every shipment would have a freight forwarder get on the phone and find his airline counterpart.

"You also have more global relationships today," Mr. Rohrmann adds. "Large companies have people who specialize in buying from airlines, setting up new routes, and planning their capacity needs. We know our customers' needs. The result is that the forwarding business is more profitable today than it was 20 years ago. Margins are under control and we provide many more services for our customers: airfreight, ocean freight, value added services, and warehousing."

However, if one looks only at air shipments, they are less profitable today than in the past, Mr. Rohrmann concedes. Others agree. Many US forwarders say their yields were 25% to 30% before the US cargo market was deregulated in the late 1970's compared with 2% to 3%

today. One consolidator in California says that when he started moving freight from Asia 20 years ago, he received US\$3.50/kg. Today he gets US\$1.50.

Another sign of the times: for the day of its 25th anniversary in 1994, DHL Worldwide considered charging customers the same low rates it offered on the day it began operation. However, executives soon learned that the company's rates were actually higher in when it started in 1968 and quickly dropped the idea.

Changes That Did Stick

Airfreight executives universally express the highest regard for the capabilities and service levels that forwarders offer clients today, standards that were undreamed of only a few years ago. Yet, they also speak wistfully of simpler times.

"When I started in the cargo business at JFK in the 1950's," recalls Anthony Calebresi, Executive Vice President of Cargo Network Services in Garden City, NY, "we made consolidations by filling up the back of a station wagon. With all the cargo we had, you could still see through the windows. In those days, you didn't have cargo terminals at JFK. There was just a circle of garages. Boy, you should have seen the day they put in parking meters. Everybody got mad!"

