

**A STUDY OF KEY FACTORS INFLUENCING FREIGHT
FORWARDER SELECTION OF SMEs IN THAILAND**



**A THEMATIC PAPER SUBMITTED IN PARTIAL
FULFILLMENT OF THE REQUIREMENTS FOR
THE DEGREE OF MASTER OF MANAGEMENT
COLLEGE OF MANAGEMENT
MAHIDOL UNIVERSITY
2017**

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Thematic paper
entitled
**A STUDY OF KEY FACTORS INFLUENCING FREIGHT
FORWARDER SELECTION OF SMEs IN THAILAND**

was submitted to the College of Management, Mahidol University
for the degree of Master of Management

on
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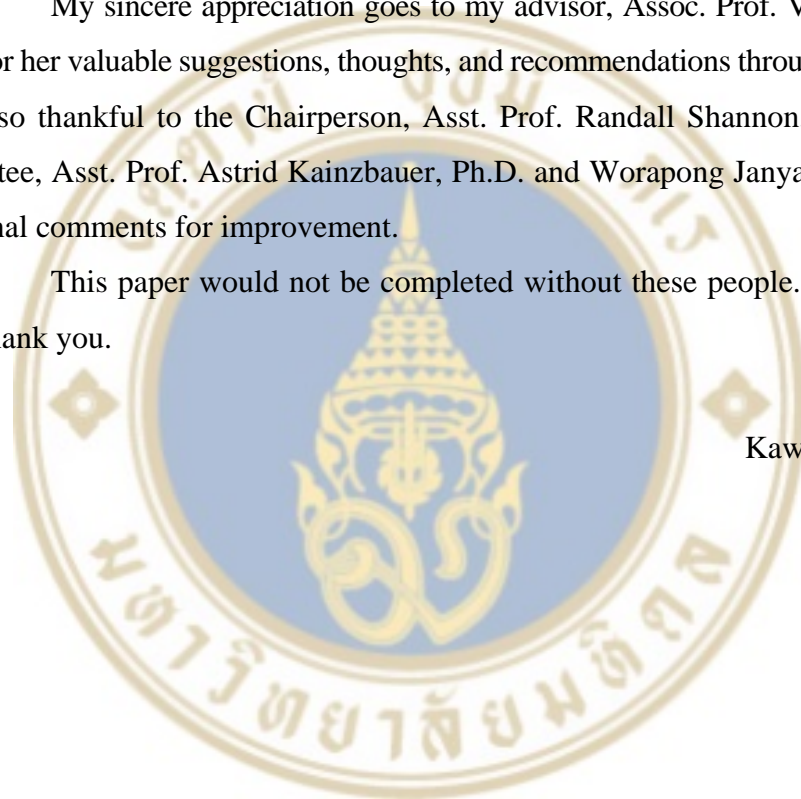
ACKNOWLEDGEMENTS

I would like to express my gratefulness to both of my beloved parents, who are always be there by my side, through ups and downs, cheering me up and continuously giving me mental supports.

My sincere appreciation goes to my advisor, Assoc. Prof. Vichita Ractham, Ph.D. for her valuable suggestions, thoughts, and recommendations throughout the course. I am also thankful to the Chairperson, Asst. Prof. Randall Shannon, Ph.Ds. and the committee, Asst. Prof. Astrid Kainzbauer, Ph.D. and Worapong Janyangyuen for their additional comments for improvement.

This paper would not be completed without these people. Thank you, and again thank you.

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ABSTRACT

The globalization has driven SMEs into international trade as competition in their domestic market raised. This study aims to determine which factors affect customers' selection of freight forwarding companies, and how these factors exert their influence. An improved understanding of these factors would benefit freight forwarders as they seek to surpass their own approach to business since it would enable them to understand how clients might be attracted and how the relationships they subsequently build can lead to increased profitability and business growth. The paper will focus solely upon SMEs operating within Thailand.

KEY WORDS: Freight Forwarder / Logistics / SME / International Trade / Thailand

39 pages

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CHAPTER I

INTRODUCTION

The business of freight forwarding is one of the most lucrative fields within the transport sector according to the management consultancy A.T. Kearney (2012). This particular segment is large, very profitable, and shows promising growth rates. As international trade expands, freight forwarders become increasingly important. Companies which trade internationally face various logistical challenges as they extend their geographical reach, and may not have the requisite time and skills to fully support their operations in overseas markets. Freight forwarders can therefore play a vital role in providing transportation services, along with the attendant documentation clearance which will be necessitated by foreign trade.

Accenture has also described freight forwarding as a segment which continues to show strong growth, and while the rate may slow slightly in the coming years, with expectations set at 1.5% in comparison with the 3% achieved during the past five years, this still represents a higher rate than the anticipated GDP growth around the world, and is thus a reason for optimism. Thailand is no exception to the positive trend, as demand from importers and exporters has been strong in recent years (TIFFA, 2004). The role of freight forwarders is not only to transport the goods, but also to manage documentation for customs, to help smaller exporters by consolidating shipments, and to serve as a negotiator between various freight carriers to coordinate their activities (Banomyong, 2011). New customers, especially in developing economies, are inclined to expect increasing levels of support from freight forwarders in managing their operations.

However, despite attempts at coordination among freight forwarders, the market remains highly fragmented as a result of the huge numbers of small forwarding companies involved, and as such, the market can easily be disrupted by numerous factors. Complex supply chains which are now increasingly globalized, along with ever-changing demand patterns and a growing customer base all influence the market. Relationships between the various parties continue to evolve and adapt to the changing business

environment, while the commoditization of shipping has resulted in the elimination of many switching costs. As services expand, the level of competition is also strengthening, while many airlines and shipping lines are now seeking to sell their services directly to large customers. A.T Kearney (2012) observed that “unless the industry dynamics are addressed and soon, freight forwarders will be condemned to competing in an industry in which slashing prices is their only competitive option”. One particular challenge for the freight forwarders is that the greater competition leads to lower rates, and the forwarders can no longer maintain the upper hand with clients over volume. It may be possible for the largest players to thrive; the 20 leading companies combine for 58% of the world’s total trade and can exploit economies of scale (PR Newswire, 2016) but competition will be very stiff for smaller companies which do not have the capital backing to match the market leaders.

Özsomer, Mitri and Cavusgil (1993) confirmed this pattern, observing that “with a broad spectrum of transportation, trade and value-added services, international freight forwarders (IFF) are used even by most of the large and highly experienced exporters”. These researchers explained further that:

“The increase in global trade has also motivated small- and medium-sized companies to initialize exporting as competition in their domestic market increased. The lack of in-house expertise in international logistics and overseas sales makes the services and expertise of IFFs even more critical for success for these smaller companies. An exceptional IFF can be a competitive advantage for an exporter trying to crack a difficult foreign market”.

One suggestion to be drawn from this quote is that advantages exist for any freight forwarding company choosing to service SMEs as the main client base rather than placing reliance upon the best-known import/export customers.

This study aims to determine which factors affect customers’ selection of freight forwarding companies, and how these factors exert their influence. An improved understanding of these factors would benefit freight forwarders as they seek to improve their own approach to business since it would enable them to understand how clients might be attracted and how the relationships they subsequently build can lead to increased profitability and business growth. The paper will focus solely upon SMEs operating within Thailand.

CHAPTER II

LITERATURE

A review of the relevant literature is presented in the following chapter, opening with some background details related to the structure and operations of freight forwarding companies and the broader status of the industry. The paper will then focus on literature sources which specifically refer to the selections of freight forwarders made in Thailand by SMEs.

2.1 Freight Forwarder Definition

To open this section, we must first define a freight forwarder and clarify the role it plays within the transport industry.

Freight forwarders are organizations which provide shipping and storage services to customers who have goods which must be transported. The freight forwarder will operate on behalf of the shipper, or of the receiver. The services offered will typically encompass the whole of the logistical process, from inland transportation, warehousing, and document preparation, to the setting of freight charges, provision of insurance and customs clearance documentation, organization of freight consolidation, and arrangement of cargo space (Rau, 2014). Terrance described freight forwarders as “companies that offer all services related to transport to anyone that places an order, everywhere in the world, whenever that is requested, using whatever means of transport, aiming at making profit” (Bell, 2000), while Bergmann and Rawlings (1998) pointed out that differences exist between freight forwarders which own the means of transport and those which simply arrange the transport. Coyle et al. (1996) however, considered freight forwarders to be simply a different form of carrier.

For a more thorough definition, we can look to the guidance given by FIATA (Federation International des Associations de Transitaires et Assimiles), and international industry association, who state that:

“A freight forwarder is a company which provides services of freight forwarding on behalf of a customer. These include transport, regrouping, storage, management, packaging and the distribution of cargos as well as auxiliary and advisory services regarding issuing and managing documents, customs facilitations, declaring cargos to the authorities, the insurance of merchandise, collecting and paying freights” (European Commission, 2001).

It can thus be concluded that a freight forwarding company is one which is responsible for the export or import of goods. It may provide transport, or negotiate between the shipper, the transport provider, and the customs agencies involved. Through logistical administration and preparation of the necessary paperwork, the freight forwarder will offer savings in both cost and time, easing the business operations of import/export clients.

2.2 Potential Clients

The role of SMEs in Thailand is significant; by 2014 there were over 2.7 million SMEs registered in the country, comprising 98% of all private sector business. In terms of imports and exports, these SMEs accounted for 30% of total imports by value, and 26.2% of exports (OSMEP, 2014).

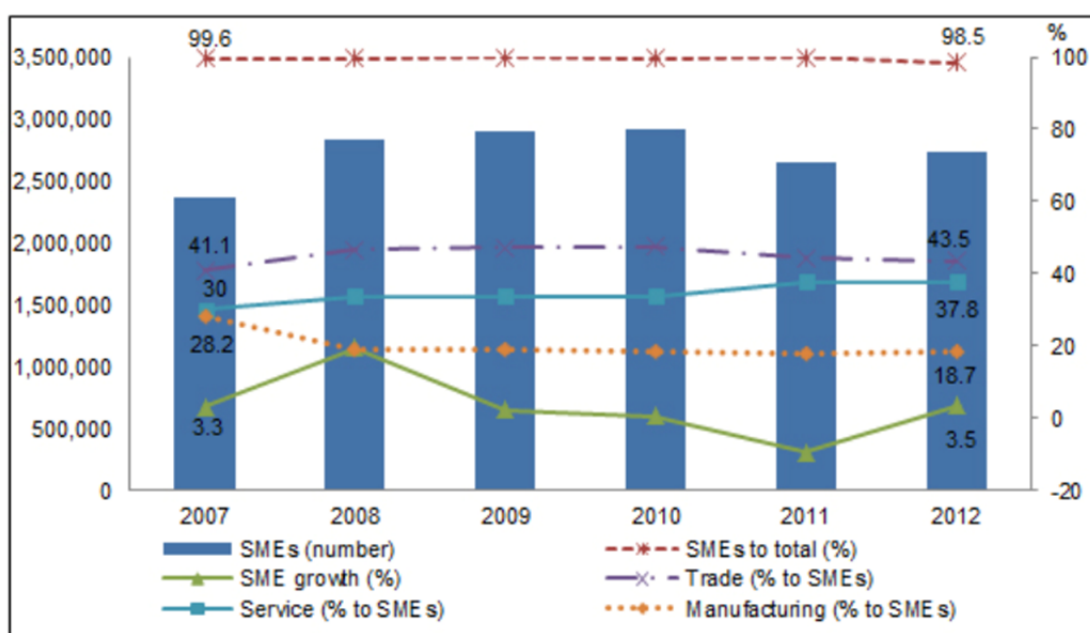


Figure 2.1 The contribution of SMEs to the Thai economy

Source: ADB (2014)

Note: Numbers refer to the scale on the left, while percentages refer to the scale on the right

Wiboonchutikula (2001) discovered that SMEs show a greater tendency to outsource certain elements of their operational activities when compared to large businesses, which prefer not to engage third parties. In particular, they outsource and subcontract their logistics activities, allowing third parties to take responsibility for freight transportation.

On the basis of the above study, and others, it can be inferred that the number of SMEs in Thailand which are involved in the import/export trade would represent a significant business opportunity for freight forwarders, who need not rely solely upon the biggest customers. This study will therefore focus upon SMEs which are currently in their initial development phase and are owned or managed by a single individual or small group. These SMEs will therefore fit into one of the following structural categories as described below (Dej-Udom Attorney-at-Law, 2014):

1. Sole Proprietorship: An individual can establish a business to operate in any sector in compliance with the law and government regulation. The owner will be taxed on a personal basis.

2. Unregistered Ordinary Partnership: This is an informal unregistered form of partnership between two or more individuals. They are subject to tax as natural persons, while each partner is also subject to personal tax.

3. Registered Ordinary Partnership: This is a partnership between two or more individuals whereby the contract, management, goals, and capital input are clearly stated for the Commerce Ministry in the registration stage. Profits may be taxed on two separate levels since the partners' profits are taxable.

4. Limited Partnership: The managing partners in a limited partnership have liability for any debts which are accrued, while the liability of non-managing partners is limited to the value of any withdrawn capital contribution. Profits may be taxed on two separate levels as the partners' profits are taxable.

5. Private Limited Company: This is a form of corporation requiring three or more individuals who will divide the business capital into equal par value shares. This type of business is considered as a juristic entity for taxation purposes.

2.3 Proposed Framework and Principal Factors

In an earlier work by Vijayvargiya and Dey (2010), the authors note that in competitive business environments it is essential that businesses should focus on their core activities while outsourcing peripheral functions such as logistics, no matter how large or small the business. It was suggested that third party logistic specialists, or freight forwarders, would represent the best option for these business requirements. The issue in question is therefore that of how a suitable freight forwarder can be selected.

The first of the various key factors are the reliability of the service and the time taken to deliver. These considerations usually tend to outweigh cost concerns (Bell, 2000). An earlier study by Bardi (1973) revealed that price did not have a particularly significant effect upon the choice of freight forwarder in those cases where the price did not exceed the market rate. Customers in the United States placed greater emphasis on factors such as the professionalism of the company, the reliability, customer service, and the availability of information, while price played a much smaller role in the decision making process (Murphy and Daley, 1997).

Brooks (1985) presented another interesting discovery, having put forward the notion of a freight forwarder selection process comprising three stages. She found that almost half of her study participants did not actively take any decision at all, since they simply used the same forwarder as on the previous occasion, in a process known as 'linear re-buy'. They did not, therefore, make any kind of comparison between rival forwarders.

Studies in Thailand reveal that the reputation of the freight forwarder has little impact upon the decision making approach of Thai import/export companies, and that instead, the customers prefer to focus on the service quality provided by the forwarder through the entire logistics process (Wongthatsanekorn and Arunpornphaisai, 2013).

A number of research studies have sought to identify the most influential combination of factors guiding customers' preferences with regard to freight forwarder selection. However, a majority of these studies have placed their emphasis upon the large scale customers while ignoring the needs and behaviour patterns of SMEs. In one typical study, "International Selection Criteria for International Freight Forwarders" by Paul R. Murphy and James M. Daley, the issue of company size was addressed by creating two categories: those with fewer than 2,500 employees, and those with more.

In the present business climate, freight forwarders have begun a trend towards increased levels of personalization through the introduction of tailor-made services. The earlier emphasis upon prices and sales promotions is no longer considered adequate to attract business (Palmer *et al.*, 2005). The most important point today is to offer a proactive form of service which maximizes flexibility for customers. Offering the same service to all clients will no longer suffice, since the needs of the different customers are not the same. However, as tailor-made services become more popular, their delivery requires freight forwarders to have a better understanding of how the customers value the different elements of the service they receive.

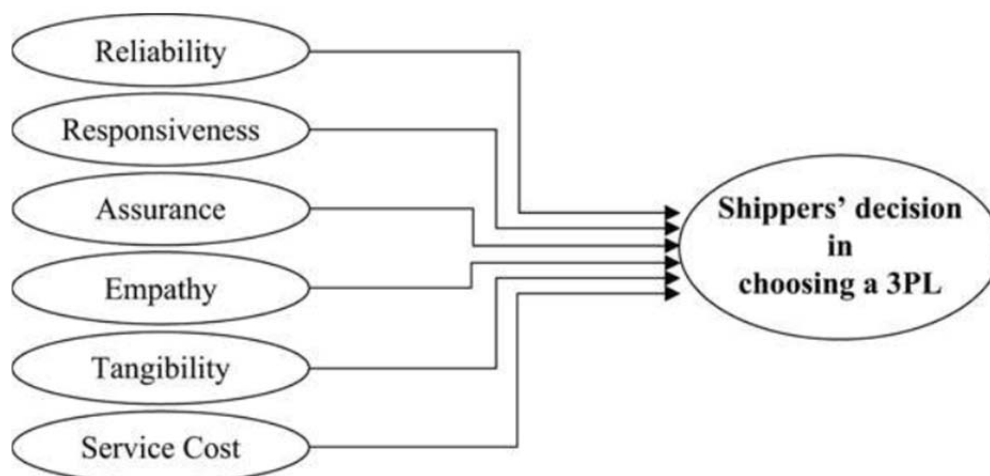


Figure 2.2 3PL selection-making model

Source: Banomyong and Supatn (2011)

It is clear that a number of factors may affect the decisions taken by customers in selecting a freight forwarder. This study will examine each of these factors presented in the 3PL selection-making model above (Banomyong and Supatn, 2011). The authors had previously applied the SERVQUAL (service quality model) framework proposed by Parasuraman *et al.* (1985; 1988) and subsequently develop their own model in order to determine the key factors which affect the decision making process.

The decision-making model is presented in Figure 2.2, while the factors related to the selection of freight forwarders are listed in Table 2.1. All the factors had been previously identified in earlier studies from the literature. However, participants were also asked to specify the characteristics which would be significant in the ideal freight forwarding company in order to ensure that the factors listed were accurate and representative of the participants' opinions. The framework could be confirmed as a suitable form of SERVQUAL model through its use in a logistics study focusing on Iskandar Malaysia (Rosland, Wahab and Abdullah, 2014). The comments made by participants in interviews were reassessed to ensure that their wordings were clearly capable of describing the factors listed.

2.3.1 Reliability

Reliability can be defined as the provision of accurate, consistent and dependable service (Parasuraman *et al.*, 1985; 1988). McGinnis (1989) observes that both reliability and total time taken in transit are considered more significant factors than cost among customers of freight forwarding services. This finding is supported by Perlman, Raz and Moshka (2009), whose study in Israel reported that Israeli customers consider reliability to be the most important factor.

2.3.2 Assurance

Assurance is the term given to a freight forwarder's capacity to inspire trust and confidence in their service and is achieved through their knowledge and customer service (Parasuraman *et al.*, 1985; 1988). Aktas and Ulengin (2005) proposed that assurance can refer to the "prestige of the carrier", with the reputation of the freight forwarding company playing a key role in establishing this prestige.

2.3.3 Tangibility

The concept of tangibility encompasses the physical equipment or facilities, the staff, and the means of communication used by the freight forwarder (Parasuraman *et al.*, 1985; 1988). In the SERVQUAL model proposed by Parasuraman, it is made apparent that the freight forwarder must employ various resources and means in order to provide the service, and these will be described as tangible components. Other terms used include assets and personnel: assets are physical equipment and means of operation, while personnel is the term given to the staff who manage the company and deliver the logistics service (Rafele, 2004).

2.3.4 Empathy

Empathy is a term referring to the care and attention which the freight forwarder expends upon individual clients. Kokkinis, Mihiotis and Pappis (2006) found that the service provided is usually best when a close relationship is built between the forwarder and the customer, since this facilitates the exchange of information so that each can better understand the needs and motivations of the other party. This allows problems to be solved and the optimal logistical solutions to be found.

2.3.5 Responsiveness

Responsiveness offers a measure of a forwarder's willingness to support clients and delivery timely and appropriate service (Parasuraman *et al.*, 1985; 1988). Aktas and Ulengin (2005) concur, citing the need to respond quickly to any issues or communication requests during the logistics process. The key components of this factor include on-time performance, quick response to complaints, provision of electronic freight tracking, attitude towards complaints or requests, and the provision of an electronic payment interface. The findings presented in a study by Goh and Pinaikul (1998) revealed that in Thailand, import/export companies were more likely to select freight forwarders who were highly responsive.

2.3.6 Cost of Service

Among the previous studies, very few have found cost to be a highly significant factor in the selection of freight forwarders (Bardi *et al.*, 1989; Bell, 2000), although one study in Norway was unusual in that it did find cost to be the main factor (Pedersen and Gray, 1998). Studies from Murphy *et al.* (1991) and Murphy and Daley (2001) compared the opinions of customers with those of the freight forwarders, and discovered that the freight forwarders believed cost to be the most important factor in the decision making process, while the customers in contrast would look at lead time and quality as their key issues.

Sink and Langley (1997) proposed the following sequence of stages through which to select a freight forwarding provider:

1. Identification of the need to outsource logistics activity
2. Comparison of potential options between;
 - utilize knowledge and expertise within the company
 - utilize an external freight forwarder
3. Evaluation and selection of the freight forwarder
4. Implementation of outsourced service
5. Continuation of evaluation process

The various characteristics and attributes presented by freight forwarders will influence the process of selection during the stages outlines above. In the case of this particular study, however, the emphasis will be placed upon stage (3), which involves

the evaluation and selection of the freight forwarder. In this stage, the customer applies his or her favoured criteria in evaluating each of the candidate service providers, before settling upon the most suitable choice in accordance with those preferences.

Table 2.1 Factor affecting decision-making process

Reliability	Assurance	Tangibility	Empathy	Responsiveness	Cost
Accuracy of documents Short transit time Consistency of the service	Firm's reputation Track and trace service offering No damaged goods while in transit Staff's knowledge and expertise Offering of one-stop service High standard service	Location of the 3PL Modern equipments EDI and E-commerce Owned CPS	Customer relationship management (CRM) Care for customers' needs and interests Keep customers' information confidentially	Fast response to customers' requests World-wide service offering Offering of updated freight rates Good care of the customers Owned overseas network Unitization/containerization offering Consolidation offering Variety of services Express delivery service offering Responsiveness of the services Staff's willingness to provide service	Reasonable price Ease of payment Appropriate credit term Discount offering



CHAPTER III

RESEARCH METHODOLOGY

This research study employed a qualitative approach in gathering evidence and performing data analysis to assess the factors which affect the decision making process with regard to the selection of freight forwarders in Thailand. The study made use of interviews to obtain deeper insights into the participants' opinions of the various influential factors and the roles these factors played in the selection process. In-depth interviews were chosen as the principal research technique on account of the need to acquire detailed data and the need to develop a superior understanding of the phenomenon which might not be obtained through quantitative means (Boyce and Neale, 2006).

To ensure the validity and refinement of the chosen factors and characteristics used in the analysis, all of these elements were drawn from the previous work of Banomyong and Supatn (2011) which examined the selection of freight forwarders in Thailand from the perspective of the customers. Their study relied on data from the three principal export sectors of the Thai economy: electronics, computers and the automotive sector. Exporters operating in these three fields account for around half of Thailand's total exports by value. In contrast, the present research study focuses on Thai SMEs in their initial stages of development, and does not include large established businesses.

3.1 Selected Participants

This study invited a number of SME owners to participate by agreeing to be interviewed in depth about the issue of freight forwarder selection. The selected participants have involvement in a wide range of sectors: they included, but were not limited to, exporters of footwear, textiles and orchids, and importers of cosmetics, electronics and machinery. The participants were also categorized according to their experience in international trade, their knowledge, and their skills.

1. Novice: these participants were new to international trade, or had minimal experience. Some participants might have received education or training to help with their activities.

2. Intermediate: these participants had a certain level of practical experience in international trade, and thus a moderate level of knowledge and skills in the field. However, they would still require professional assistance in order to trade internationally.

3. Expert: these participants have a sufficiently high level of skill, knowledge and experience that they are able to handle all freight logistics situations without the need for professional assistance.

3.2 Data Collection and Interview Structure

A total of 30 owners of SMEs in Thailand were invited for interviews. These were conducted either in person, or by video conferencing, and were typically of 25-45 minutes' duration. All of the interviews were carried out during a period of three weeks. The interviews were prepared on the basis of a questionnaire survey which comprised a number of open-ended questions which enabled the interviewer to extract the opinions of the participants in their own words.

Before each interview, the participants were asked to provide some information about their company background and the business in which they were involved. These data could then be used in order to assess the specific needs of each particular business or industry sector.

In the next step, the participants were required to define the role of a freight forwarder in order to provide the researcher with a better understanding of these customers' perspectives. However, the researcher then explained to all participants the definition for a freight forwarder which has been adopted for the purposes of this research study in order to ensure that all participants would approach the interviews with a common understanding of the terms involved.

During the interviews, the participants were invited to identify which characteristics of the freight forwarding operation would most significantly influence their choice. This task was completed in order to validate the selection of factors taken from the literature for this study. The particular choice of words used by the participants

was also analyzed in order to more accurately or clearly define each of the selection factors or criteria. The participants were therefore familiarized with the factors and characteristics and were thus better placed to explain their choice of freight forwarder.

3.3 Interview Questions

The researcher prepared a number of interview questions in advance. These were designed to extract responses which would offer insights towards the study framework which was described in the literature review section. However, the questions were primarily open-ended in order to allow the participants to freely express their views in depth.

Table 3.1 Interview Questions

Topic	Questions
1. Key Components to the Introduction: <ul style="list-style-type: none"> • Purpose of the interview • Participant profile • Confidentiality • Length of time • Interview process • Opportunity for participant questions 	1.1 Participant's Name: 1.2 Occupation: 1.3 Company: 1.4 Industry Sector: 1.5 Year Established: 1.6 No. of Staff: 1.7 Annual Trade Volume: 1.8 Inter-Trade Experience/Knowledge Level:
2. Definitions and Basic Understanding:	2.1 In your own words, please define the concept and role of a freight forwarder.

Table 3.1 Interview Questions (cont.)

Topic	Questions
<p>3. In-Depth Results and Test Framework:</p>	<p>3.1 Which key factors do you take into consideration when selecting a freight forwarder? Please explain.</p> <ul style="list-style-type: none"> • Reliability: Document accuracy, Fast delivery time, Consistent service. • Assurance: Reputation, Availability of tracking service, Goods arrive undamaged, Knowledgeable staff, One-stop service, High quality service. • Tangibility: Office location, Modern facilities and equipment, Availability of E-Commerce, Ownership of CFS/ warehouse. • Empathy: Good customer relations, Concern for customers' requirements, Confidentiality guaranteed.
	<ul style="list-style-type: none"> • Responsiveness: Rapid response to requests or problems, Global service, Updated rates, Own network worldwide, Availability of unitization and containerization, availability of consolidation, Service variety, Service responsiveness, Willingness of staff to serve. • Cost: Fair prices, Simple payment system, Good credit terms, Availability of discounts.

Table 3.1 Interview Questions (cont.)

Topic	Questions
<p>4.) Key Components to the Close:</p> <ul style="list-style-type: none"> • Further comments • Subsequent steps • Thanks and appreciation 	<p>4.1) Are there any further recommendations you wish to suggest? Please don't hesitate to share your ideas.</p> <p>All the information submitted will be studied and analyzed before being submitting to CMMU. If you would like to have a copy of this research study upon completion, please let me know.</p> <p>Thank you for kind cooperation.</p>



CHAPTER IV

FINDINGS

The results from the series of in-depth interviews are described in this chapter. There were many captivating yet unexpected outcomes produced by the interviews. The researcher rated each participant based on their level of knowledge/ skills/ experience in international trade. This allowed the researcher to observe if their level of expertise and knowledge would affect the factors that they valued when selecting a freight forwarder. Participants were classified based on their level of expertise in Table 4.1, with the data presented in both number and percentage forms.

Table 4.1 Group of Participants

Level of Expertise	Qty. (n)	Percentage (%)
Novice	15	50.00
Intermediate	10	33.33
Expert	5	16.66
Total	30	100

The participants are owners/ co-founders of small- and medium sized companies. While participants in all groups could provide a clear definition and describe the roles of a freight forwarder, the novice participants took a little more time to think, and hesitated before answering. There was one misinterpretation shared among most of the participants in all groups. A freight forwarder was defined in this research as an intermediary party between a shipper/consignee and various transportation carriers and customs agencies (as well as many other government agencies controlling the import/export of goods), but more than two-thirds of the participants perceived a freight forwarder to be an actual carrier itself.

As mentioned earlier in chapter three, this research paper adopted a modified SERVQUAL framework developed by Banomyong and Supatn (2011) to conduct this study. Therefore, it is unavoidable to challenge the validity and coherence of the proposed framework. Table 4.1 illustrates the results from constructive interview sessions: even though only four out of thirty participants were able to mention all of the six factors, all the factors were proved to be relevant. It is noteworthy that debated topics are relevant only to the pre-transaction phase.

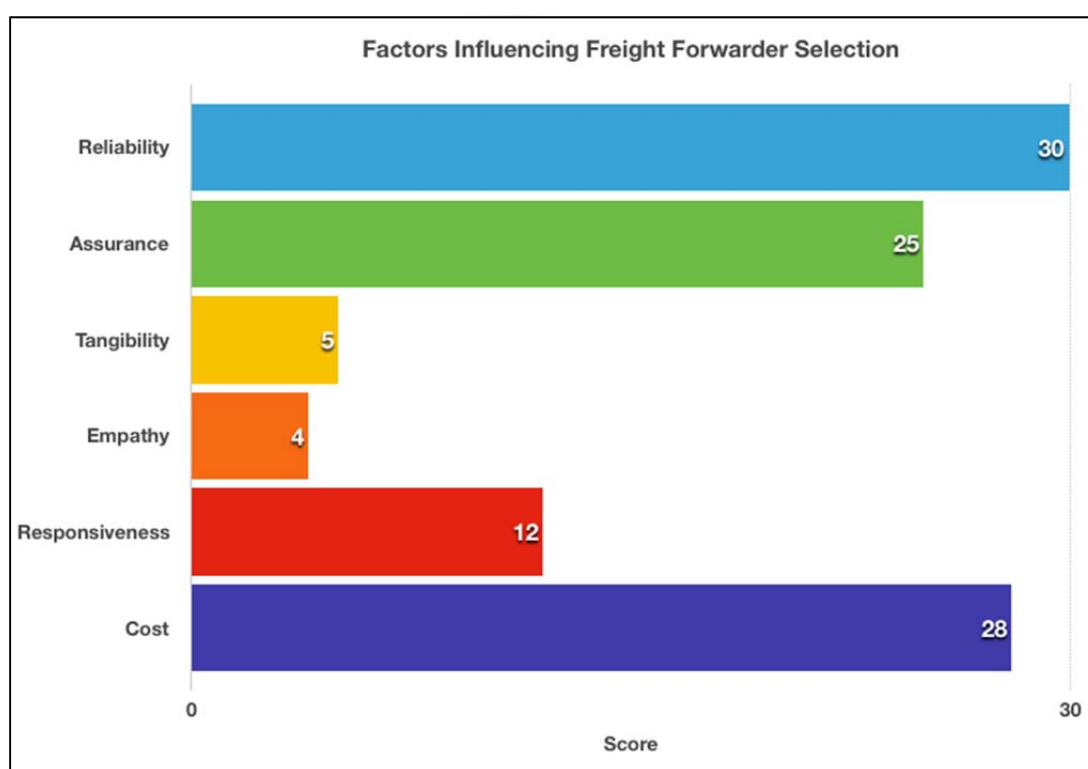


Figure 4.1 Factors Relevant to the Proposed Framework

4.1 Reliability

Reliability is the top-of-mind factor of all participants. It was invariably the first answer that was given regardless of the participants' firm size, industry, or level of expertise and experience in doing international trade. The researcher encouraged each individual to describe the aspects that make up 'reliability' through providing supportive answers. In the modern era, freight forwarders are not only providers of

outsourced logistics services, but they have also become logistics partners with their clients and they are trusted by those clients to act on their behalf.

This trust is portrayed by on-time delivery. In the case of SMEs, transit time does not always have to be extremely fast, unlike the situation for industrial-sized firms and giant manufacturers. On-time delivery, as promised, is wholly acceptable and satisfactory.

Another aspect frequently brought up by many of the participants was the consistency of the service. According to the findings, this is the key to customer satisfaction. Customers expect the job to be completed smoothly without mistakes or errors, but if something goes wrong, a freight forwarder should have a secondary plan in order to quickly address and solve the problem to the customer's satisfaction.

4.2 Assurance

More than eighty percent of the participants agreed that assurance is another crucial factor when choosing a freight forwarder, even though most of them mentioned this factor without themselves knowing that they referring to this assurance factor (they did not say the word, "assurance"). This happened because the elements comprising this factor were frequently disclosed when participants were describing other factors, such as reliability, tangibility, and responsiveness.

A firm's reputation was one of the main aspects of assurance being discussed during the interview sessions. There are two main sources of information through which participants recognize a firm's reputation. A minority (six participants) claimed that they appreciated freight forwarders who were well established in the public sphere, having industry standardized accreditation and/or certification, and readily found through online media. These participants would then spend time to study the company background, past jobs, and client portfolios in order to complete the decision-making process. However, a majority (nineteen participants) significantly valued freight forwarders with whom they somehow (more or less) have a personal connection. For example, classmates, childhood friends, relatives, friends of a cousin, and so forth can all inspire confidence. They all claimed that they felt more comfortable to ask more questions to someone that they can relate to rather than strangers in well-known forwarding firms.

SME customers seek ways to diminish complexity. Their ideal freight forwarder is one which offers a complete logistics service from one place (offering a one-stop service); warehousing, packing, freight transport, permit/license, customs clearance, and other value-added services. In particular, the participants in the novice level implied that they would choose a forwarding firm that could help them to easily navigate all the complexity in importing/exporting goods and negotiating the complicated regulations. Furthermore, the freight forwarder should be able to cope with their requirements by offering advice and solutions to all their problems.

More than half of the participants indicated that the knowledge and expertise of the staff is the fundamental basis of a good freight forwarder. In this case, they do not emphasize the individual's educational background, training, and other personal details, but instead they consider all the employees of the company as a whole in order to assess whether they have what it takes to get the job done. One freight forwarder may specialize in certain areas, whereas another freight forwarder specializes in another, such as agricultural products, live animals, valuable cargo, general cargo, hazardous cargo, and so forth. These participants said that they would consider the nature of their own goods and whether they required specialized handling, tools, or equipment. In this case they would consider the forwarder's past experience and expertise.

One compelling finding in this study was the realization of the researcher that most of the participants failed to state one mandatory aspect of this factor: no damage or loss of goods while in transit. At the time of designing the interview questionnaire, the researcher had expected this aspect to be specified by at least 80 percent of the participants. To clarify this curiosity, this aspect was introduced into the discussion. Many of the participants declared that this aspect is the minimum acceptable standard for every freight forwarder, so they did not actually think very much about it. Note that in this case we were discussing the stage (3): 'to evaluate and select supplier'; if we should examine more deeply into the re-evaluation stage, the weight of this aspect may or may not become higher.

4.3 Tangibility

In this context, tangibility was the second least relevant factor that influenced the freight forwarder selection of SME firms. Only five participants claimed that physical evidence related to quality of services would affect their selection process. It was apparent that almost all of the participants were relatively indifferent about the location of the freight forwarder, the tools and equipment that they use, the system and software, other physical assets, and whether all the activities are performed in-house or outsourced to their suppliers/vendors. As long as the forwarder can deliver the desired outcome, the participants were unconcerned about the means used.

4.4 Empathy

Only four participants (13.33 percent) mentioned the empathy factor. However, although empathy received the lowest score among all factors, the four participants who included this factor on their list were the ones who were able to identify all six factors of the proposed framework. After reviewing their background and the nature of their business/industry, the researcher found that these were participants with many years of experience in the global market who had a high level of expertise and related skills in this field.

Participant Alpha said that his business was unique and required individualized service from the forwarder. He runs one of Thailand's leading helicopter MRO (maintenance, repair, and operations) companies. Each part and component of the helicopter has its own lifespan, and therefore has to be replaced at a certain time. Therefore it is very important to him that the freight forwarder and its staff truly realize and understand the crucial nature of making these parts available when they are needed.

Participant Bravo commented that she was being neglected and not being treated properly when she was dealing with well-known freight forwarders as her company accounted for only small transactions as a part of the forwarder's total operations. Therefore, she prefers any freight forwarder, large or small, which is able to provide personal attention to her business.

In addition, freight forwarders act on behalf of their clients in many activities; it is thus their duty to hold the trade secrets of their clients (COGS, MSRP, trade

agreements, supplier lists, customer lists, etc.). Therefore, the study participants agreed that it is absolutely essential for any freight forwarder to maintain the confidentiality of customers' information at all times.

4.5 Responsiveness

About one third of the total participants considered that a freight forwarder's responsiveness is a must-have component in all circumstances in determining the success of their business. Due to the fact that many of these participants are currently in the beginning stage of their business growth, their export and import activity at present is small in volume and typically infrequent.

From their point of view, the effectiveness of this dimension can be amplified by equipping customer service agents with the best knowledge and skills sufficient to handle shipments and transactions. A timely response to requests and inquiries is an indicator of a freight forwarder's responsiveness. In most situations, customers expect same-day responses, or in the worst case, a next-day response time.

4.6 Cost

Twenty-eight participants, accounting for 93.33 percent of the sample group, referred to cost of service. This was the second most relevant factor when small- and medium-sized firms are choosing a freight forwarder according to the findings of this study. Most of the participants said that they did not search for the cheapest shipping rates, but rather sought out the most reasonable ones. Each individual viewed the level of reasonable rates differently, but they came to the mutual agreement that a reasonable shipping rate is one whereby they do not feel it is excessive and/or they are being overcharged. They will then have to calculate the actual freight cost for price and profit margin of the goods that they sell. In some cases, 15 to 25 percent of the order value when compared to the freight cost was found to be a reasonable price level.

In normal practice, freight forwarders allow from 15 to 45 days to their large accounts with regular transactions (having daily or weekly shipments). For smaller accounts, they have to accept COD (cash on delivery), or in the worst cases, freight

prepaid. Small businesses generally run on cash in their day-to-day operations, but most sales are made using credit rather than cash. This means that higher sales volumes also create a greater chance that the company could experience cash-flow problems. A freight forwarder that can offer appropriate credit terms (7-15 days) is therefore preferable.

An additional aspect was discovered in this dimension during the study. Most of the participants asserted that freight forwarders often use technical terms and jargon in their quotations. Participants in two of the groups, novice and intermediate, said that most of the time they found themselves having difficulty trying to calculate the shipping costs from the rate sheet with breakdown tariffs, surcharges, fuel and crisis charges, THC, WHF, AMS, and so on. They wanted to know only the simplified total shipping cost for their particular shipment so that they could calculate their COGS before starting selling, so they could forecast their profit margin per shipment/order. On the contrary, a small number of participants in the group of experts said that they were satisfied with breakdown charges being provided, since this allowed them to keep track of the fluctuations in freight rates and enabled audit billing from time to time. These participants were familiar with all the terms and knew how to estimate the total amount.

4.7 Financial Stability

This factor was added by the experts. From their perspective, the financial stability of the forwarder is a very important factor in choosing a freight forwarder. Freight forwarders rely on several third parties in transporting goods; customs brokers, carriers, truckers, port authorities, and so forth. In Thailand, financial requirements are not regulated by the government. Therefore, if the forwarder has declared bankruptcy while the shipment is in transit, the customer may have to make a second (double) payment to the carrier or to other third parties to allow the shipment to arrive at the destination.

In this research, the objective was to understand the factors impacting the freight forwarder selection process of SMEs. The scope of the study was limited only to the pre-transactional phase, examining the factors which occur before the actual transaction takes place. Moreover, the approach assesses gaps between the expected

service and the actual service. The main concern is that the six factors are not distinct and there is a chance that equivalent results can be acquired using fewer factors. For example, it may be possible to merge elements of reliability, assurance and tangibility into a single factor.



CHAPTER V

CONCLUSION

5.1 Conclusions and Recommendations

The proposed framework by Banomyong and Supatn, (2011) was proved to successfully allocate factors and aspects that had an impact upon the freight forwarder selection process of SMEs. The findings above demonstrate that all the six factors are relevant, with three dominants (reliability, cost, and assurance) to the fore. These three factors are found to be fundamental factors that are widely accepted by the majority of the participants in all levels of expertise. An additional financial stability factor was also discovered and originated from the interviews.

On the other hand, fewer participants were concerned about responsiveness, tangibility, and empathy (in order of the score). The smaller group of participants who responded to these factors comprised a mixture of intermediates and experts. The participants at the higher levels of expertise and experience tended to be more selective and considered their evaluation of each dimension and aspect of the freight forwarders in their selection process much more carefully. The explanation behind this phenomenon is that they are equipped with the ability to anticipate, to predict, or to expect. They are able to foresee what is ahead and to predict an outcome. They realize the correlation between cause and effect and know how to leverage their skills and experience to think things through. They anticipate outcomes based on each situation so that they can respond strategically to get the results they wish to achieve. If freight forwarders wish to pursue this type of customer, they should try to be as specific as possible because these customers want to have a clear idea of what success looks like, and what the specific actions are which need to be taken to reach the goal. Forwarders should be optimistic, but never overpromise anything if they are uncertain.

In contrast, participants with a lower level of expertise and experience think of the freight forwarder as their business partner who removes the complexity involved in the transportation of goods from one country to another. The fact is that the freight

forwarding industry is complicated logistically, and these participants want things to be simplified and easy to understand. A few of these participants even mentioned that they value simplicity enough to pay more for it. While some freight forwarders may think that having an online tracking system for customers to monitor their shipments is being simple, many customers see this as akin to rocket science. A painless quick phone call to your customers to give the latest status update of their shipments could do the job more simply. Therefore, if freight forwarders are approaching customers with minimal experience in doing international trade and with lower levels of related skills and knowledge, the key is to keep the process simple at every step. These customers care primarily about the results, and little else. This can also be expressed as Process-Based v Outcome-Based customers.

In conclusion, understanding customers is the key to success in the freight forwarding industry. Customers with different backgrounds, education, training, and work experience have different needs and value different things. To understand what customers expect, it is necessary to see the industry from their perspective. Freight forwarders must therefore try to see themselves from the customers' perspective rather than simply perceive a reflection of their own service performance measures. An ideal customer profile can be created using the following criteria (Ciotti, 2013):

- Describe your ideal customers – age, education, work experience, and a high-level view of what they do and what is important to them in doing business.
- Business characteristics – B2B, B2C, nature and type of business, no. of employees, geographic scope, revenue, and budget.
- Locate your customers – how are these customers likely to find you?
Online and offline?
- Understand their purchasing/decision-making process – Where do they begin their research? What is their problem or need? What are the benefits to finding a solution? Do they seek out referrals?

A completed customer profile will be useful to help freight forwarders to develop the type of content which will appeal to each customer group/type (novice, intermediate, or expert). According to Ciotti (2013), there are distinct categories of content: the first type has the most simplified information and advice and can be easily consumed and understood; the alternative is content packed with information and in-

depth detail that adds a lot of value. Identifying which type of approach works best for each customer allows a freight forwarder to define a clear approach to providing the message and content for specific customers. This can later be converted into sales and profit.

Even though every company is unique, the justification for outsourcing freight transport activities falls into more or less the six factors exhibited in this study.

5.2 Limitations

There are several limitations associated with this study. First, this research only examined SMEs in Thailand. Thus, the findings will not necessarily apply to firms in other countries, although they may be useful in understanding the tested relationships conceptually. Second, the research was cross-sectional, with data collection taking place during a limited period and only reflecting one point in time. There are also limitations to the extent of the reliability of the findings, due to the small sample size. This was unavoidable due to problems recruiting respondents. A final limitation is that the findings only tested a small number of potential factors related to freight forwarders' characteristics and perceived service quality, which is one of the reasons for the relatively small magnitude of the relationship found. This means that a lot of the variance in firms' performance perceptions remains unaccounted for.

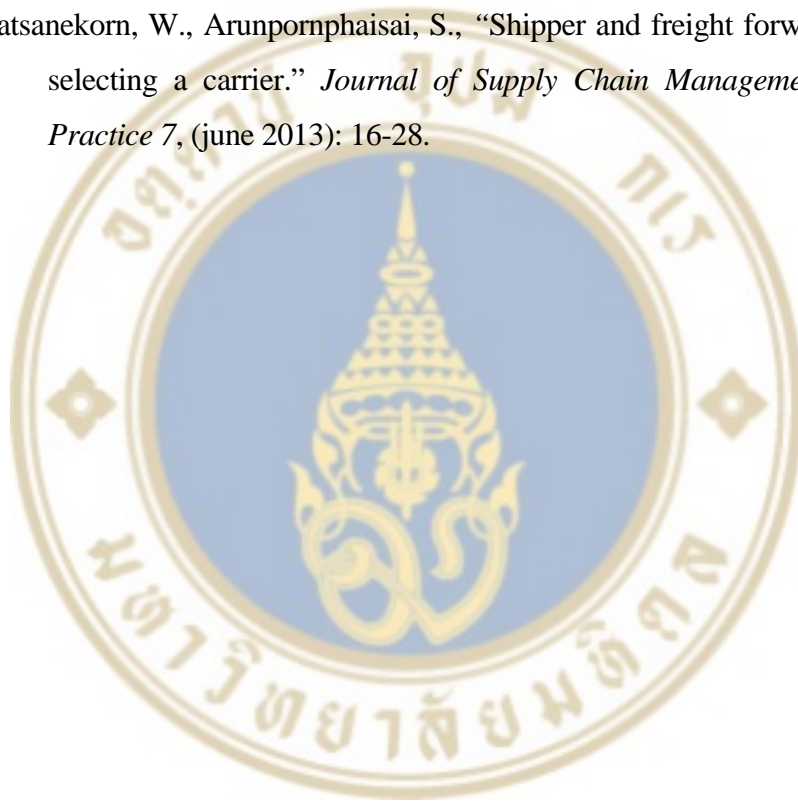
5.3 Future Research

At the higher level of research, this topic can be further developed by experimenting with transaction factors and post-transaction factors. It would also be informative to expand the study into the other steps among the five steps related to logistics provider choice (Sink and Langley, 1997) by integrating both qualitative and quantitative methods. This would offer more information to gain a deeper understanding about the selection of freight forwarders by Thai SMEs.

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Appendix A: Interview Form

A Study of Key Factors Influencing Freight Forwarder Selection of SMEs in Thailand.

Kawin Phuangthong

This paper is aimed to study how different factors of a freight forwarding company impact on SMEs' selection. The knowledge and in-depth understanding of these attributes can be of great value to freight forwarders when developing their business strategies to retain existing clients and attract new client base in order to sustain growth and profitability. Scope of this research paper is limited to SMEs in Thailand.

Part One: Introduction

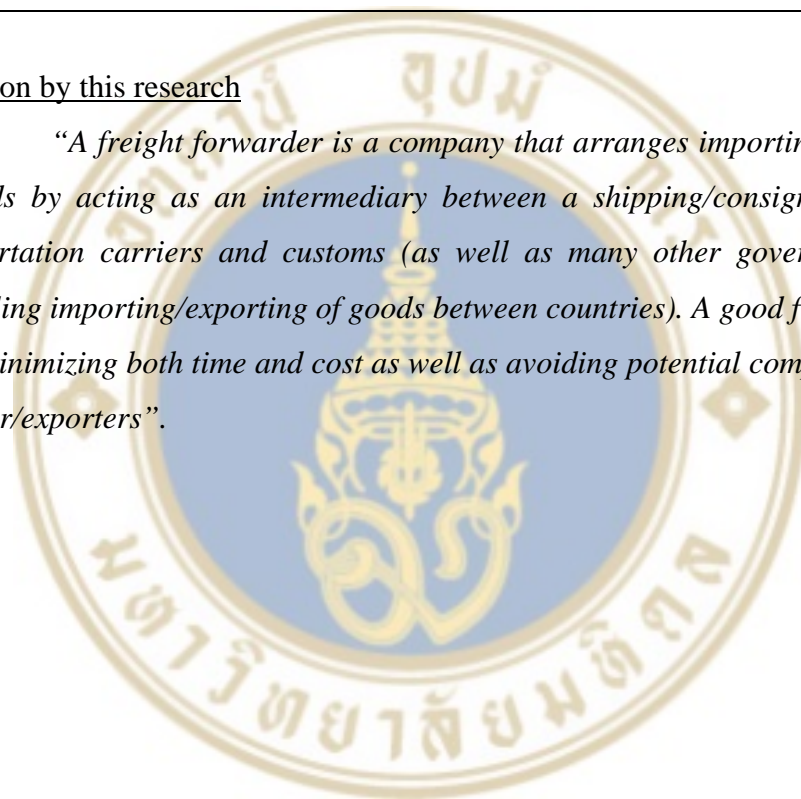
Name of Participant:		Date of Interview:	
Interview Start & End Times:		Level of Inter-Trade Experience/Knowledge:	
Job Title:			
Company/Business:			
Type of Business/Industry:		Year of Establish:	
Trade Volume Per Year:		No. of Employees:	

Part Two: Definition/Basic Understanding

2) In your own words and understanding, can you give definition of 'freight forwarder' and its roles?

Definition by this research

“A freight forwarder is a company that arranges importing and exporting of goods by acting as an intermediary between a shipping/consignee and various transportation carriers and customs (as well as many other government agencies controlling importing/exporting of goods between countries). A good freight forwarder helps minimizing both time and cost as well as avoiding potential complication of both importer/exporters”.



Part Three: In-Depth Findings and Testing Framework

3.1) In your opinion, what are the key factors that you consider when choosing a freight forwarder? Please elaborate.

3.1.1) **Reliability**

Relevant to framework

<input type="checkbox"/> Accuracy of documents
<input type="checkbox"/> Short transit time
<input type="checkbox"/> Consistency of the service
<input type="checkbox"/> Others

3.1.2) Assurance

 Relevant to framework

<input type="checkbox"/> Firm's reputation
<input type="checkbox"/> Track and trace service offering
<input type="checkbox"/> High standard of service
<input type="checkbox"/> Staff's knowledge and expertise
<input type="checkbox"/> Offering of one-stop service
<input type="checkbox"/> No damaged goods while in transit
<input type="checkbox"/> Others

3.1.4) **Empathy** Relevant to framework

<input type="checkbox"/> Customer relationship management (CRM)
<input type="checkbox"/> Care for customer's needs and interests
<input type="checkbox"/> Keep customers' information confidentially
<input type="checkbox"/> Others



3.1.5) Responsiveness Relevant to framework

<input type="checkbox"/> Fast response to customers' requests
<input type="checkbox"/> World-wide service offering
<input type="checkbox"/> Offering of updated freight rates
<input type="checkbox"/> Owned overseas network
<input type="checkbox"/> Unitization/containerization offering
<input type="checkbox"/> Consolidation offering
<input type="checkbox"/> Variety of services
<input type="checkbox"/> Responsiveness of the services
<input type="checkbox"/> Staff's willingness to provide service
<input type="checkbox"/> Others

