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CANAAN GROUP: RESHAPING THE ECS division

Ken Mark wrote this case under the supervision of Professor Kenneth T. Goh solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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In January 2015, Patrick Lo, the president and chief executive officer (CEO) of the Canaan Group, a Canadian logistics conglomerate, was thinking about ways to restructure his Export Cargo Specialist (ECS) division. The ECS division focused on ocean freight forwarding—helping customers coordinate and ship goods from origin to destination. Most requests involved picking up goods from a customer’s factory or warehouse and managing the transportation of those goods all the way to the recipient’s factory, warehouse, or stores.

Over the past two years, the shipping industry had faced significant disruption due to excess shipping capacity and a fall in demand for shipments. In response, the ECS division was restructured to provide consistent coverage to clients. However, issues emerged as a result of the restructuring, leading to employee departures. Turnover in the division had reached 70 per cent in the past year. These trends and the impact from the restructuring led the division to record a net loss on operations in 2014. “We tried to restructure the division, and this change caused a lot of confusion,” said Lo. “I recognize that we need to right the ship, but I want to think about how we go about doing this so that we can avoid further mistakes.”

Freight Forwarding Industry

In the freight forwarding industry, customers valued the timely, cost-effective, transfer of goods maintained in their original condition throughout the process. To accomplish this work well, freight forwarders had to work with multiple carriers over various modes of transport – air, marine, rail, and land.

Every transfer from one mode of transport to another, and every time jurisdictional boundaries were crossed, required a set of documentation to be completed. Completing this documentation was not just a simple task of filling up forms, but required one to be familiar with tariffs, customs regulations, and specific requirements of shipping by that mode of transport.

While investments in information technology enabled freight forwarders to manage some of these tasks more efficiently, it was still a complex process with many uncertainties and irregularities that still required knowledgeable, experienced, and competent individuals to negotiate alternative arrangements, problem-solve on the fly, and assuage customers in the event that deliveries did not go as planned.

Canaan Group

In 1981, Paul Lo founded a freight forwarding company in Vancouver, Canada that grew continuously to become one of the largest privately owned Canadian logistics companies—the Canaan Group. Over the years, it expanded to include various services: global air and sea freight, customs brokerage, warehousing and distribution, fully integrated courier service, cargo insurance, trade-aid consulting, real estate development, and venture capital financing. Lo, who was Paul’s son, took over as president and CEO in June 2002.

Export Cargo Specialist (ECS) Division

The ECS division was historically organized by function—sales, booking, and documentation. These were different roles and tended to attract different personalities. Sales consisted of one person dedicated to meeting prospective clients and selling them on the benefits of working with the ECS division for their logistics needs. Once clients were brought on board, it was the booking department’s job to take care of clients’ needs. Booking staff worked with the ECS network of logistics service providers to find the best possible routes for shipments and to anticipate and resolve shipping issues. Sending goods from one location to another required extensive paperwork to be filled in. This task was accomplished through documentation. Documentation staff identified the goods to be shipped, noted down the correct tariff codes if necessary, and generated specific disclosure documents for fragile or sensitive goods (such as machinery parts). Because of the specific logistical needs of different industries, ECS staff tended to be industry experts, with each client assigned to one ECS staff member.

For example, a forestry product company wanted to ship lumber from its factories in British Columbia, Canada to a customer in Kyoto, Japan. The process the ECS team followed to assist the company in shipping its product included information gathering, obtaining rates, booking the carriers, filling in documentation, following up with the customer, and monitoring the shipment as it was transported from origin to destination (see Exhibit 1).

In many cases, the services provided by the ECS team went beyond managing routine shipments. Delays in manufacturing or transportation resulted in shipments being held up or held back. For example, a delay caused by a railway line performing emergency maintenance could push the pick-up date from the factory by three days. This delay could create a domino effect where the truck carrying the goods to the port would arrive a day late, missing the cargo ship’s original departure date.

When such delays occurred, the booking department worked with its various transportation providers to find alternative shipping options and routes. For example, instead of relying on the regular transport service, a higher-priced expedited service to cut two days off a trip could be booked. Alternatively, the booking agent could arrange for truck transport instead of rail transport if a railway were undergoing maintenance. In most cases, the cost of these changes was passed on to customers. An ECS manager stated:

We help clients ship goods efficiently and at a cost-effective rate. There was a lot of problem solving and creativity involved in the role because a shipment could involve many combinations of services. For example, shipping a few containers from Calgary to China could involve two different shipping lines and different ports, depending on availability.

If any documentation was incorrectly provided, amendments needed to be made as soon as possible. Otherwise, if the item codes on a shipping manifest did not match the description of the physical goods being inspected, goods could be delayed at customs indefinitely. If transportation options were closed because of deadlines or capacity constraints, alternate routes had to be found, rates negotiated, and passage booked.

A key consideration for the ECS division was the value of having a satisfied customer over the long run. While the division might not make its margin on one or two complex shipments, satisfied clients often entrusted their business with the division for years. Thus, customer service representatives in booking often built strong client relationships with their customers.

“There are very few barriers to entry in the freight forwarding industry,” said a manager. “If we can’t provide extra service, the customer can go elsewhere.” Some of these extra services included covering the cost of unexpected documentation or delays, if they were a nominal sum, or helping customers manage packaging waste, such as surplus boxes or crates, at no extra cost.

Pressure to Restructure

During the Great Recession of 2008–2009, demand for raw materials and finished goods fell worldwide. This decrease in demand resulted in a collapse in the average price to ship products overseas as the owners of empty cargo ships competed for business. The major decline in shipping volume—and revenues—was followed by a second decline in demand from October 2011 to January 2012 (see Exhibit 2). To preserve financial strength, many carriers cut out non-core operations in their businesses, such as documentation service. To retain competitiveness and client relationships, freight forwarders had to perform more of this service for their clients.

The ECS documentation staff members found themselves overwhelmed by the additional work, and it was difficult to hire new staff to take on this additional work. At the salaries offered, the ECS division could attract only younger, junior staff. However, it was difficult to retain them as they were discouraged by the mundane work of managing detailed documentation and the limited career prospects. To accommodate the additional documentation work, Lo decided to set up a three-person office in Taiwan in 2013. Lo believed it would be easier to find and retain staff in Taiwan, where there was a larger pool of labour that was more accustomed to performing routine data entry work. By shifting more documentation work to Taiwan, Lo freed up resources in Vancouver.

Changes in the Vancouver office seemed necessary as well. As each industry had its own set of regulations, clients were assigned to booking staff by industry. Each staff member covered multiple industries with no overlap in coverage. As a result, the department was caught short whenever someone was on vacation or called in sick. Tina, the ECS manager, had to rely on sporadic emails from the person who was not in the office to piece together the case being managed. Consequently, ECS staff worked long hours and were not able to take time off, which Lo recognized to be a problem:

Due to the high volumes at times, I recognized my staff were overwhelmed. They would work overtime and come in on weekends. It was what we needed to do to keep our customers. It was a tough time in the industry, and one wouldn’t want to lose a customer because a few emails weren’t being responded to. Yet this reliance on staff working extra hard could not go on forever. Eventually, I was worried the quality of our service would suffer.

Creating a Cross-Trained Workforce

In an attempt to address the problems, Lo sought to restructure roles and work assignments among the ECS group. He planned to introduce a model that would allow the group to offer cross-coverage, meaning that multiple individuals within the group could handle any single client’s business. Thus, rather than being assigned to a single function, each staff member was assigned to cover all the needs of a client. This change meant that each client would have a pair of dedicated representatives capable of performing a range of functions for them. No longer were individuals assigned to solely doing bookings or completing documentation, but they were to be cross-trained in performing these functions for the clients they were assigned to.

Lo was concerned about the ability and interest of individuals to learn a different function (booking to documentation and vice versa), the intricacies of each industry, and indeed, the preferences of each client. He noted that ECS business fell into two categories: 1) high-value and high-margin very important (VIP) clients, and 2) medium- to high-volume but lower margin regular clients. The former accounted for about 70 per cent of ECS business.

VIP clients required more customized solutions and more attention to their transport needs. ECS staff had to be available to respond to these clients as needed. For example, a request could come in at 7:00 p.m. that required six hours to two days’ worth of analysis. A VIP client could ask ECS staff to arrange shipments of five or more full container loads of mixed product (household goods, gardening supplies, clothing) coming from five different factories and going to 10 different destinations. VIP clients could generate $200,000 in commissions per year. In contrast, regular clients might require one or two shipments of goods a month—mining equipment and supplies, for example—one wooden pallet at a time. These regular clients might generate $8,000 in commissions per year. Regular clients needed a response that took perhaps 20 minutes to prepare. Lo noted:

Our clients are not uniform in the way they send work to us. There are clients whose entire volume occurs during a very narrow one- or two-month window; there are other clients who provide consistent, stable volumes. And our high-volume VIP clients can sometimes offer us a significant amount of work on short notice.

Nevertheless, the experiment went ahead. The restructuring was implemented by way of a buddy system so that there were at least two people covering a client. Beginning in the first quarter of 2014, individuals in booking and documentation were matched up with the intent that each learned the other’s role. It was expected that booking personnel would coach documentation personnel on how to develop business, and in exchange, the former would learn how to complete documentation. By providing cross-coverage of clients, it was hoped that the buddy system would alleviate everyone’s workload and allow the ECS group to continue providing a high level of service without overwhelming the staff.

Consistently, in each of the three teams, there was one individual placed as the mentor and the other as the trainee. Pairings were put in place at the start of January 2014 (see Exhibit 3).

Issues with the Restructuring

It became evident within a week that there were issues with the new arrangement. The individuals in booking were generally gregarious and customer-centric—willing to take on extra work and manage unexpected issues that clients brought up. They were flexible and could think out-of-the-box when it came to finding solutions to shipping issues. The individuals in documentation were detail-oriented and leaned toward strictly following the terms of any agreement. As they were more likely to be introverts, they did not seem comfortable dealing with clients in general.

Within the first month, Bruce and Simon gradually took on fewer booking inquiries and projects, reverting to managing documentation for their paired groups. This seemed to come as a relief to Sharon and Paula, who preferred to deal with clients rather than learn about and fill in the documentation necessary for shipments. In the Brenda and Lorna pairing, it seemed as if Brenda was not willing to share booking responsibilities with Lorna. This resulted in some degree of resentment on Lorna’s side; while she was eager and capable of doing more, she was frustrated at being treated like a personal assistant. Brenda commented on how she viewed the restructuring:

I came to Canaan after working at various shipping lines. I remember that when I moved to Canaan, I had one of the biggest profiles at ECS. My budget numbers were in the millions while others were in the hundreds of thousands. I didn’t want to do documentation because it didn’t utilize my experience. I can use my resources for other things. Problem solving with clients’ issues take time. If I spend this time doing documentation—which is data entry, really—it’s not a good use of my time.

There are issues in booking that we must deal with and we must be flexible to be able to drop our other non-value added work to focus on client issues. If we can’t provide clients this extra service, if we can’t resolve it speedily, clients will go elsewhere.

Brenda’s insights on the need to revert to the old roles—especially when the team was under pressure— rang true for the other pairings. While the intent was to have cross-trained individuals, booking agents did not want inexperienced team members providing incorrect information to clients or booking inefficient modes of transportation. Brenda added: “Lorna, with whom I was paired, was not equipped to deal with shipping problems. I recognized that and I did not have the bandwidth to do anything else other than resolve the issues in front of me. That meant that Lorna had to do her part, which was to focus on documentation.”

If there were any mistakes, booking staff knew that clients would be upset and that additional work would have to be done to placate them. Also, booking staff had spent months or years building up their book of business with clients. They had strong working relationships with clients and were often reluctant to share these clients with their documentation colleagues.

Another issue that created resentment was the pay disparity between booking and documentation staff. Previously, booking staff tended to be more experienced producers, generating revenues and profit for the firm, while documentation staff were less experienced and seen as part of the back office operations. Thus, before the restructuring, booking staff earned an average of 20 per cent more than documentation staff. When it was made public that the pairings would be sharing booking and documentation duties, Lo addressed this discrepancy by increasing the pay of staff previously in documentation. However, this increase was met with resentment by others. One manager stated:

We’re essentially supposed to do the same things now—booking and documentation. Why are our colleagues in documentation getting a salary raise? Our team in booking has worked hard to bring the business back on track after the recession. Do we not deserve a raise as well for taking on documentation work, which is different from what we’ve been trained to do?

Next, there was the issue of client mix. “Accounts were initially assigned based on working language,” said Lo. “We’d evenly distribute the volume so that there was the same volume of documentation and booking for each person, and similar numbers of high-volume, VIP clients per team.” In theory, the client allocation per pairing was supposed to be equal. In practice, the volume of work coming from clients could not be predicted, and certain pairings received significantly more work than others. Lo had to manage significant differences in workload: one pairing could be sitting idle while another would be overwhelmed with work.

Even when shipment requests seemed evenly distributed, the complexity of tasks posed another issue. Complex shipments could require 15 different transportation modes in a single order, and the booking agent would often have to adjust a few connections along the way to account for delays. In contrast, routine shipments could require confirming a regular weekly shipment of low-value goods from factory to warehouse.

Given the differences between complex and routine shipments, the attempt to balance the workload by distributing shipments evenly across all pairings left everyone frustrated. Less experienced staff could not adequately anticipate and solve problems on complex shipments. Often, experienced booking staff had to step in on an emergency basis to protect arrival dates that had been promised. Invariably, it was more work to “save” a shipment than it was to anticipate the issues in advance. The documentation required for more complex shipments required experienced individuals as well. There were times when staff formerly in documentation had to step in to correct mistakes made by their less experienced colleagues. The unintended fallout was that some customers were dissatisfied with what they perceived to be a drop in the quality of customer service in both booking and documentation.

There was the additional challenge that complex shipping requests typically generated higher margins—and thus higher bonuses—for individuals working on them. Senior staff were unhappy that some of these higher margin opportunities were taken away from them, replaced by more routine—and lower value—work. Lo was aware of complaints from senior staff about reduced bonuses.

Redistributing accounts also meant that some clients with a long-term relationship with a booking agent had to now deal with a new person. This upset the booking staff who had spent years cultivating a relationship with the client. In addition, clients were reluctant to work with a new staff member and threatened to take their business elsewhere if they could not work with their former booking agent.

Six months into the experiment, it was evident that Lo’s attempts at restructuring the ECS division had not gone as anticipated. Little cross-training had occurred between the pairs, and most booking and documentation work was still performed by the staff member whose original role it was. Despite Lo’s best intentions, the division had reverted to its previous structure. To make matters worse, his attempt at restructuring had created greater animosity within the group and dissatisfaction among clients.

By September 2014, there was turnover in the division with Tina leaving for a Canaan Group project in Alberta and three employees—Simon, Gail, and Sharon—leaving the company. Four new hires were brought in as replacements but two left within weeks. Two more hires were made to replace these team members. In October 2014, the team was comprised of Brenda (manager), Bruce, Nora, Julia, Raye, and Paula.

Nora was hired to replace Simon in documentation. Julia and Raye had experience at other companies in the logistics industry but did not have direct experience in the work performed by the ECS team. “We wanted the new hires to complement the team,” said Lo. “We wanted the team to be easily moldable, if we decided to change the structure of the team again.”

Next Steps

After managing the busy last three months of 2014, Lo took stock of what he had seen in the ECS division. The experiment—moving to a buddy system—could not yet be considered a success. It was not clear whether the changes should be reversed or if they were merely in the first year of what should be a two- to three-year transition. “What if we quit too early and don’t give this plan enough time to succeed?” he pondered.

One option open to Lo was to bring in one of his experienced project managers—Lucas—currently working in the Project Cargo division (which handled freight that did not fit within the standard industry containers) to head up the ECS division. “Should I bring fresh perspective into this department?” Lo wondered.

Another option was to promote one of the bookers or documenters into the manager role and allow that person to come up with a potential solution. “They’ve dealt with the issue for the past year,” said Lo. “Surely they’ll have some idea of what needs to be fixed, and how.”

There were many opportunities in the freight forwarding industry. Lo could envision the Canaan Group—specifically, the ECS division—capitalizing on the changes. Before he could build a stronger foundation for the future though, the turnover in the division had to be stabilized. Lo surveyed his ECS team’s organizational chart and wondered what changes he should make.

Exhibit 1: Export Shipment Process

The export shipment process began when a customer, such as a forestry product company, contacted an ECS salesperson and outlined a request. The request included specifications on the goods being shipped, a preferred arrival time window, and any constraints specific to the shipment—such as whether the goods were fragile or required refrigeration. The ECS booking team would explore various shipping options, including rail, truck, and ocean freight. The first task was to find a convenient, cost-effective, and reliable way to transport the goods to the nearest port, typically by road or rail. Then the booking team needed to find available shipping slots on the various ships that were leaving around the same time.

To prepare the goods for receipt at its destination port, the ECS booking team worked with local brokers to help the merchandise clear customs. Finally, a suitable way of transporting the goods from the port to their final destination had to be arranged. The booking team negotiated prices on behalf of the client. Then the ECS documentation team filled in the various forms that were required at each step of the process, including the bill of lading—a detailed list of a shipment of goods in the form of a receipt given by the carrier to the person consigning the goods—and any import or export forms.

**Overview of the Export Shipment Process**

**Sales & Rate Inquiry Process Booking Documentation**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 1 | Sales team markets ECS services | 9 | ECS secures space on the shipper’s transportation options | 9 | Data centre handles paperwork for the shipment |
| 2 | Shipment request is received from a customer or agent | 10 | Data centre handles the booking request | 10 | ECS sends relevant documents to the customer |
| 3 | Request is forward to ECS | 11 | Data centre updates when the booking is confirmed | 11 | Customer or agent approves all documentation |
| 4 | Customer service (CS) team is created to handle the inquiry | 12 | ECS completes profit and loss entry for the request | 12 | Shipment is approved |
| 5 | CS team examines shipper rates on hand | 13 | Booking confirmations are sent out | 13 | ECS coordinates cargo loading |
| 6 | Additional rates are requested from shippers |  |  | 14 | ECS and data centre revise and complete documentation |
| 7 | Quote is provided to the customer |  |  | 15 | Revisions, if needed, are made and submitted to shippers |
| 8 | ECS records the rates offered on a shared rate sheet |  |  |  |  |

Source: Company files.

Exhibit 2: Baltic Dry Index, 2002–2015

A screenshot of a cell phone

Description automatically generated

The Baltic Dry Index (BDI) is a shipping and trade index created by the London-based Baltic Exchange that measures changes in the cost to transport various raw materials. The exchange directly contacts shipping brokers to assess price levels for a given route, product to transport, and time to delivery or speed.

Source: “Baltic Dry Index,” Bloomberg, accessed January 20, 2020, <https://www.bloomberg.com/quote/BDIY:IND>.

Exhibit 3: ECS division pairings

|  |  |  |
| --- | --- | --- |
| **Pairings** | | **Rationale** |
| **Booking** | **Documentation** |  |
| Brenda  Age: Mid-30s  Role: Mentor | Lorna\*  Age: Early 30s  Role: Trainee | Brenda had significant experience in booking. Lorna was detail-oriented and seemed willing to learn a different role. Brenda was sales-oriented and good at engaging clients. However, Brenda seemed disorganized and needed help with documentation. Lorna had a different ethnic background than the others on the team. |
| Sharon  Age: Mid-30s  Role: Trainee | Bruce  Age: Mid-40s  Role: Mentor | While Sharon was younger than Bruce, she showed initiative in solving problems. Bruce, one of the best people in documentation and management, wanted to develop his skills in booking. Sharon could look beyond the current issues and resolve longer term issues. On the other hand, Sharon had yet to develop a focus on responding rapidly to customers and avoided routine, detail-oriented issues. Bruce could focus on minute details and respond rapidly to customer questions. However, he had little interest in discussing or thinking about longer term issues or problems, preferring to focus his attention on immediate deliverables. |
| Paula  Age: Early 30s  Role: Mentor | Simon  Age: Early 20s  Role: Trainee | Paula and Simon were the pair that was the closest in age. Management was aware that Simon was one of the newest employees and wanted a mentor from booking whom he could relate to. Paula was the longest serving employee—she had worked with the Canaan Group for nine years and was paired with Simon as a mentor to him. |

\* Brenda was paired with Gail, and Gail left the firm. She was replaced with Lorna.

Source: Created by the case authors.