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9B17D005

DHL GLOBAL FORWARDING: CONSOLIDATION PROGRAM

Debmallya Chatterjee and Kedar P. Joshi wrote this case 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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On the evening of October 13, 2015, Amit Datta, regional director of DHL Global Forwarding (DGF), was gazing out the window of his office in Bengaluru, India. His day had been very hectic, and his last meeting, which was about DGF’s consolidation program, had run for two hours. DGF provided air and ocean freight forwarding services. In September, Datta’s team had successfully tested the consolidation program in three Indian cities: Hyderabad, Bengaluru, and Chennai. In the last meeting, three months ago, the team had suggested that Datta consolidate shipments from individual clients in the respective city. Such aggregation helped DGF to get cheaper shipment rates from airlines. While glancing through the respective consolidation teams’ reports, several questions occurred to Datta: Was DGF paying more to airlines on specific days of the week in these three cities? Should the company continue to run the consolidation program in these locations? How could DGF consolidate its clients’ requirements across these cities? Would such consolidation benefit the company? Datta looked at his calendar and realized that the next team meeting was only one day away; before that meeting, he would have to create a new consolidation program.

Company and Background

DGF was a division of Deutsche Post DHL Group, and was the top forwarding agent worldwide.[[1]](#footnote-1) DGF’s recent global growth had been momentous, with the introduction of a new multi-modal service between China and Japan.[[2]](#footnote-2) In 2015, DGF had cumulative revenue of €14.89 billion and operating profit of €181 million (see Exhibit 1).[[3]](#footnote-3)

DGF was the market leader among the many forwarders operating in India, which included companies such as Kuehne+Nagel, DB Schenker, Agility, Nippon Express, Expeditors, Panalpina, Dachser, Toll Global Forwarding, Damco, CEVA Logistics, Jeena & Company Private Limited, Om Logistics Ltd., Express Cargo Containers, and LCL Logistix. Most of these forwarders operated worldwide, but some (e.g., Om Logistics Ltd., Express Cargo Containers, and LCL Logistix) concentrated mainly on the Indian market.[[4]](#footnote-4)

Third-party logistics (3PL) was an outsourced function that comprised transportation, warehousing, and relevant logistics service activities. Due to increasing globalization, 3PL providers started gaining traction with their state-of-the-art information technology infrastructure and excellent geographic reach. Because of this growing demand, the providers enjoyed economies of scale, which helped them achieve greater cost effectiveness. The market for 3PL was highly fragmented, with companies offering various value-added services like order management, fleet management, logistics consulting, customer support, and freight forwarding.[[5]](#footnote-5)

Freight forwarders played a key part in a sector that effectively transported goods worth US$5.3 trillion every year. Freight forwarding was usually classified into four categories: rail, road, sea, and air. Due to many different factors (e.g., competition and volatility in oil prices), forwarders faced huge challenges in retaining their market share. A forwarder helped clients transport their goods to the desired destinations through a combination of various transportation modes, and charged clients according to the weight of the consignment (see Exhibit 2). To achieve economies of scale, consignments from different clients were aggregated. Thus, 3PL providers focused on reducing transportation costs through consolidation programs.

DGF facilitated the transportation of packages for its clients globally. For this reason, the firm developed a number of international services dedicated to the import and export of goods. DGF met its customers’ logistical needs in many diverse contexts, from standardized logistics operations and multi-modal transport solutions to highly individualized industrial projects. Founded in 1970, DGF had steadily expanded its operations. By 2015, it operated in 135 different countries, particularly in Asia, Europe, and Africa. The company handled consignments for a large variety of goods—including textiles, automobile parts, high-tech products, and manufactured goods—and also provided grouping and consolidation solutions to suit specific transport requirements. Depending on clients’ logistical requirements, DGF offered different handling services such as offloading, order picking (preparation of orders in dedicated areas),kitting (production of kits from several parts), packaging, filming, and labelling.

DGF’s operations in South India mainly catered to the states of Tamil Nadu, Karnataka, Kerala, Andhra Pradesh, and Telangana. The firm received batches of consignments in its warehouses, located at Hyderabad, Bengaluru, and Chennai. These goods were then consolidated, repackaged, and dispatched to Europe—the most common destination being Frankfurt, Germany.

The Consolidation Program

Datta and his team specialized in consolidation of the orders at DGF, and assisted clients on a daily basis. A typical weekly dispatch schedule was made available to all clients (see Exhibit 3). This document depicted the company’s turnaround times. For instance, if a shipment was delivered to DGF on day one, the same shipment would be dispatched on day two (the next day). However, if day two was a holiday, then the shipment would be dispatched on the subsequent business day. It took DGF approximately 48 hours to ship goods from India to Frankfurt by air.

Datta was responsible for collecting information about clients’ requirements for the upcoming month (see Exhibit 4). These requirements from individual clients in Hyderabad, Bengaluru, and/or Chennai were consolidated at DGF’s warehouses in the clients’ respective locations. Shipments were dispatched directly to Frankfurt using cargo space available in passenger airlines. Among the four passenger airlines used by DGF, three were from the Middle East and one was from Europe. The availability of various flight options from all three points of origin (i.e., airports) in South India to the chosen destination (i.e., Frankfurt) drove the choice of day for shipping (see Exhibit 5). The airlines charged DGF based on the weight of these aggregated shipments.

However, Datta knew that on certain days of the week, the shipments accumulated at one of the three locations, which was not helpful in achieving economies of scale. He wondered if DGF could achieve greater cost efficiencies by routing the goods through another airport instead, using overnight road transportation to move the shipments to DGF’s warehouse in another city at an additional cost (see Exhibit 6). The industry norm was a maximum transit time of five working days between the point of origin and the destination airport.

Although Datta worried somewhat about potential delays due to traffic congestion and/or accidents while moving shipments by road, he remembered a company report that estimated the possibility of such incidents at no more than 2 per cent in South India. If such delays did occur, DGF was required to pay clients a penalty equivalent to the shipping cost of the delayed consignments.

Based on his ideas about road transportation, Datta hoped to formulate a plan that would help DGF save money through this modified consolidation; yet with only one day to do so before the next team meeting, he knew he would have to work late into the night. He asked his secretary for some strong coffee, and sat down at his desk to begin.

Exhibit 1: DGF’s TREND OF REVENUE and OPERATING PROFIT (2009–2015)

Source: Company materials.

Exhibit 2: rateS OFFERED BY AirlineS

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Airline** | **Etihad Airways** | **Lufthansa** | **Emirates** | **Qatar Airways** |
| Shipment size in kilograms (kg) | Rate (₹ per kg) | | | |
| ≤100 | 135 | 150 | 145 | 130 |
| 101–500 | 125 | 135 | 130 | 120 |
| 501–1000 | 105 | 120 | 110 | 100 |
| >1,000 | 95 | 110 | 100 | 90 |

Source: Company materials.

Exhibit 3: Weekly consolidation shipment schedule

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Day** | **Monday** | **Tuesday** | **Wednesday** | **Thursday** | **Friday** | **Saturday** | **Sunday** |
| Demand accumulated across the week |  | Saturday and Monday |  | Tuesday and Wednesday |  | Thursday and Friday | Holiday |

Source: Company materials.

EXHIBIT 4: SHIPMENTS PLANNED BY VARIOUS CLIENTS FOR FRANKFURT

|  |  |  |
| --- | --- | --- |
| Origin | Client | Shipment Size per Day (in kg) |
| Hyderabad | A | 100 |
| Hyderabad | B | 1,000 |
| Hyderabad | C | 300 |
| Bengaluru | D | 100 |
| Bengaluru | E | 1,500 |
| Bengaluru | F | 400 |
| Bengaluru | G | 250 |
| Bengaluru | H | 50 |
| Bengaluru | I | 200 |
| Chennai | J | 700 |
| Chennai | K | 300 |
| Chennai | L | 500 |
| Chennai | M | 2,000 |

Source: Company materials.

Exhibit 5: Airline schedule to Frankfurt

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Origin** | **Monday** | **Tuesday** | **Wednesday** | **Thursday** | **Friday** | **Saturday** | **Sunday** |
| **Etihad Airways** | Hyderabad |  |  |  |  |  | Available |  |
| Bengaluru |  | Available |  | Available |  |  |  |
| Chennai |  |  |  | Available |  |  |  |
| **Qatar**  **Airways** | Hyderabad |  |  |  |  |  |  |  |
| Bengaluru |  | Available |  |  |  | Available |  |
| Chennai |  | Available |  |  |  |  |  |
| **Lufthansa** | Hyderabad |  | Available |  |  |  |  | Available |
| Bengaluru | Available | Available | Available | Available | Available | Available | Available |
| Chennai | Available | Available | Available | Available | Available | Available | Available |
| **Emirates** | Hyderabad | Available | Available | Available | Available | Available | Available | Available |
| Bengaluru | Available | Available | Available | Available | Available | Available | Available |
| Chennai | Available | Available | Available | Available | Available | Available | Available |

Source: Company materials.

Exhibit 6: Road transportation costS FOR DGF (₹ per Kg)

|  |  |  |  |
| --- | --- | --- | --- |
|  | Hyderabad | Bengaluru | Chennai |
| Hyderabad | – | 8 | 9 |
| Bengaluru | 8 | – | 4 |
| Chennai | 9 | 4 | – |

Source: Company materials.

1. Patrick Burnson, “The Top 25 Freight Forwarders: Leaders Prepare for Demand Surge,” Logistics Management, September 1, 2014, accessed March 29, 2016, www.logisticsmgmt.com/article/freight\_forwarders\_leaders\_prepare\_for\_demand\_surge; Damian Brett, “DHL, K+N and DB Schenker the Leading Airfreight Forwarders,” June 19, 2015, accessed March 29, 2016, www.aircargonews.net/news/single-view/news/dhl-k-n-and-db-schenker-the-leading-airfreight-forwarders.html. [↑](#footnote-ref-1)
2. Jeff Berman, “DHL Global Forwarding Introduces New Multi-Modal Service between China and Japan,” Logistics Management, December 6, 2011, accessed March 29, 2016, www.logisticsmgmt.com/article/dhl\_global\_forwarding\_introduces\_new\_multi-modal\_service\_between\_china\_and\_Japan. [↑](#footnote-ref-2)
3. All currency amounts are in € or ₹ as specified; € = EUR = euro; ₹ = INR = Indian rupee; US$1 = €0.876 = ₹64.76 on October 15, 2015. [↑](#footnote-ref-3)
4. Armstrong & Associates, Inc., “A&A’s Top 25 Global Freight Forwarders List,” July 14, 2016, accessed July 20, 2016, www.3plogistics.com/3pl-market-info-resources/3pl-market-information/aas-top-25-global-freight-forwarders-list/. [↑](#footnote-ref-4)
5. Subrata Mitra, “A Survey of Third-Party Logistics (3PL) Service Providers in India,” *IIMB Management Review* 18, no. 2 (2006): 159–174. [↑](#footnote-ref-5)