Flexport: Digitization of Paperwork

Manan Shah
School of Information Studies,
Syracuse University
mshah06@syr.edu

Ammen Siingh
School of Information Studies,
Syracuse University
asiingh@syr.edu

About Flexport

Flexport is a freight forwarding and customs brokerage company based in San Francisco, California. It manages international trade by using the key aspects of business: people and technology. Shipping something from Shenzhen to Cincinnati or Rotterdam to LA requires complex coordination. Currently that's done by telephones, spreadsheets, and fax machines. Flexport provides a web-based application that takes over the hassles of such a complex system and coordinates real-time visibility of your shipments.

The idea for Flexport was rooted in 2011, with the first hurdle being compliance. Shipping is heavily regulated, and Flexport intended to be a licensed customs brokerage. After going through an FBI background check and consulting with legal and customs expertise, Flexport was finally cleared to be launched. In 2013, Flexport was founded by Ryan Petersen, who now also serves as the Chief Executive Officer of the company. He was also the founder of ImportGenius.com, the largest provider of business intelligence to the import-export industry. Other members of the leadership of Flexport include Amos Elliston, Chief Technology Officer; Sanne Manders, Chief Operating Officer; Stouffer Egan, Chief Commercial Officer; Ben Braverman, Chief Revenue Officer[1].

Paul Graham, the co-founder of Y Combinator, quotes, "Flexport is one of those rare companies that will not merely satisfy its market, but grow it. There will be more international trade because of Flexport, and international trade is a very big thing for there to be more of."

For local businesses to grow on a global scale, their services must have a greater reach. Greater the reach of a business, higher their clientele and revenues, and for an organization to reach these international standards of trading, they need a service provider that will provide a flawless solution, which Flexport does.

What Flexport Does

Flexport is essentially an international shipping coordination company. International shipping involves a complex chain of different companies. The freight leaves a factory in China, gets picked up by a trucking company, it's routed to a warehouse, loaded into a container where it's combined with other people's products. Another company transports it to the port, where it clears customs. Then it's put on a ship that's owned by yet another company and brought to the U.S. where the whole thing happens again, with a customs clearance, a truck to the warehouse and another truck to a customer. Freight forwarders handle all that. Before Flexport, there was no one doing it with built-in software that made it user-friendly. There was no tracking. That was the problem Flexport set out to solve.

Talking about the business model and revenue generation at Flexport, Ryan Petersen in an interview explains that Flexport charges 15% on every shipment, while their competitors charge 25%. This is because Flexport is relatively new in the market when compared with companies that have been around for decades. While Flexport ships about 7000 customers a month, and its competitors ship 100,000 on an average, Flexport makes the same profit or more since they are fully automated, cutting down various kinds of cost that would have been incurred by manual processing. Ryan Petersen says that Flexport can be thought of as Facebook for freight forwarding, explaining that with an example of Warby Parker who is one of Flexport's customers, and whose suppliers are also Flexport's customers since they were invited by Warby Parker to be a part of the system. So now, Warby Parker can buy from his suppliers, and the trade on both ends will be handled by Flexport.

Implementation of Technology at Flexport

Flexport aims to use automation and software that enables customers track their packages and shipments, much like shipping small packages through FedEx, DHL or United Postal Service, except that $9 trillion global logistics business uses a different model and is what Flexport aims to target. They have raised $94 million in venture capital from investors that include Peter Thiel's Founders Fund, First Round Capital and Google Ventures. Flexport, which has 420 employees in seven offices, including Atlanta, Amsterdam, Hong Kong and Shenzhen, was valued at $365 million in July 2016 and its revenue is expected to hit $500 million this year[2].

The technology that Flexport uses, along with skilled and experienced logistics and customs experts, make Flexport the go-to organization for freight transportation services. Their services range from air freight, ocean freight, and trucking to warehouse and fulfillment, customs brokerage, and cargo insurance.

Impact of Implementation of the New Technology

To revolutionize an old industry like freight forwarding, a company needs to be very meticulous in their handling of the four pillars of information systems.

People

To cause a stir in the market and attract attention to themselves, Flexport needs charismatic leaders who can keep the attention of the investors and the clients alike. Flexport has one such leader in its co-founder, Ryan Petersen. People liken him and his work ethics to that of a machine.

Also, Flexport seems to understand that to carry out digitization of the paperwork it would need a lot of people who understand freight forwarding as well as technology. This reflects in their strategy of hiring like crazy, and hiring only the right personnel that understands the working of the industry and the organization.

Keeping in mind the stakeholders of the system, which are not just the employees, but also primarily the clients who use the system, Flexport constantly works towards developing an application that is accessible to the end user. Incorporating functions like tracking a shipment and notifications, Flexport has created a system where the client is always in the know and feels on top of all actions of the trade.

This eventually builds up the client's satisfaction with the services provided by Flexport, and also increases the scope for further business.

Process

Compared to other freight forwarding companies, Flexport's process is very different. First of all, they are a digital company and have given up paperwork. Most of the other competitors are still using paperwork as their mode of operation.

Flexport also uses optimization of routes to maximize its profits and lowering its business cost. This enables them to bid lower than the competing companies. They use the concept of "Cross Dock," where they keep client's goods till they have enough goods to go to that location in order to optimize the trip to its fullest.

The entire shipment process is intricate. It starts with making a booking with details about the freight which is to be transported. Next comes the delivery phase, wherein the freight leaves the factory of the client, is picked up by a trucking service, staged at a warehouse where it waits until an optimal amount of freight has been gathered for delivery in and around the same location. The freight is then loaded into containers and then put on a ship that is provided by another company. Once the shipment reaches an international port, it has to go through customs. Then starts the reverse cycle of delivery, that is, the freight now goes from docks to warehouse, it is then put in a truck and delivered to its intended location. All of this, truck services, warehousing, shipping, customs, delivery, is handled by Flexport. What is pivotal here is that everything is digital, and whole process is optimized for maximum benefit.

Technology

Flexport has gone digital with their paperwork. This has made things lightning fast for them. They are cutting short the average time offered by other companies to half. They do this using route optimization algorithms so that they can get the most out of each of their trips. The technology also includes an advanced freight tracking system which enables users to locate their products in transit around the world with Flexport's real-time tracking technology.

Moreover, Flexport has fully eliminated the use of any traditional means of communication. Clients can collaborate in real-time, which is done by streamlining communication between key stakeholders with their online messaging and collaboration tools.

When it comes to technology, security is a major concern that every customer has, and that every company must address. Flexport does so by providing distributed visibility into any of its application data. Users can control who can access the supply chain, both inside and outside of the company, with the use of sophisticated data access permissions.

In totality, Flexport not only provides digitization of the entire freight forwarding process using cutting edge technology, but also takes into account all the needs of the customer and the organization and implements a solution for it.

Structure

Currently, Flexport relies heavily on the star performance of its co-founder. As a startup its doing well for them but as they start growing they need to be better at governance and setting policies for their company.

Risks Involved in Implementing the New Technology

The risks that Flexport might face in their path to success are as follows:

Preference to Personal Touch

People might enjoy the personal touch and attention that they get from old, established freight forwarding companies like FedEx, DHL, etc. One advantage of sticking to paperwork is that your clients are more than an ID for you. Whether or not there is any kind of personal attention being given to the customer, it is human tendency to have an affinity towards being recognized by one's identity, rather than a customer identification number. This personal touch might hold a lot of water and could possibly hinder the success of Flexport and its theory of conducting business digitally.

Disrupting a B2B Model

There is already a market standard which is set and trying to disrupt a business-to-business model is not quite easy. Businesses tend to be very skeptic about a new way of doing things. Their inflexibility to accommodate Flexport's business vision might complicate things for Flexport.

It is easier in a business-to-customer model, where the customer is concerned about their profit. Unlike a B2C model, in a B2B model, the servicing organization has to deal with a business that is looking at their own profit just as much as the service provider is looking at its own. Moreover, Flexport is doing things in a new way, but the basic task, that is of freight forwarding, has been around for a while. It is only natural that all customers have a well-established relationship with a service provider other than Flexport, someone who has been in the market for longer. Getting a potential customer to forget their past relationship and embark upon a new one, no matter how lucrative their offerings are, will be a tedious task for Flexport.

Nascence of a Start-Up

Despite its mercurial rise, Flexport is still considered a start-up. Many companies would be wary of getting into business with a startup and spoiling a relation with one of the oldest companies in the freight forwarding industry. This reluctance of clients to accept Flexport's position in the business might negatively impact Flexport and is a potential risk.

Business Impact of the New Technology

Optimizing the transport routes in conjunction with the use of their cross-dock concept would enable Flexport to conduct its business at a much lower cost than other companies. This profit could then be forwarded to the clients, which means that the clients would have to shell out a significantly smaller amount for the same shipment with Flexport, than they would have to with any of the traditional freight forwarders.

Digitization of a freight forwarding company would be a pioneering move. It would give Flexport with enough time to take advantage of them being the first to make this move. This leaves Flexport with an upper hand, giving them enough room to become a major player and capture the market before anybody of its competitors does. Also, with the technical expertise that Flexport has, that has enabled them to digitize the entire process of freight forwarding, Flexport stands way ahead of anyone who even thinks of doing what Flexport has done.

Also, the older, established companies are not as flexible as Flexport. This would give Flexport a great advantage in competing with them. Flexport has shown its boldness in what it does and how it intends to capture the market. Older companies lack the flexibility to implement a change on such a massive level, especially since they are knee-deep in what they are doing using traditional techniques. This gives Flexport the advantage of slowly and steadily letting customers know the new, enhanced, beneficial way of doing business and eventually choosing Flexport over other providers.

Lessons Learned

Seemingly bland businesses can be great opportunities for innovation. Everyone is busy trying to come up with the next big Facebook or Twitter. But the truth is that other business domains can be as profitable, if not more, as these firms.

Large companies tend to be less flexible as they grow in size. There seems to exist a tradeoff between size and flexibility. Also, large companies are seldom the one to come up with a disruptive technology. They seem to be good at improving their process but not good with challenging their business theory and constantly reinventing themselves.

Analysis on Skills of CIO

Pertaining to Flexport and its working, to drive the organization to success, the Chief Information Officer must, first and foremost, possess soft skills. It is clear that what Flexport has done is bold. Success of the company lies in the hands of its customers, whether they will accept the new technology or not. It would take a serious amount of convincing to make customers realize how they can benefit from what Flexport is offering. The CIO must excel at communication and soft skills that would enable him to correctly explain the system to the customers and persuade them to use it.

These soft skills, coupled with basic knowledge of freight forwarding, would be enough. Detailed technical knowledge is not required of the CIO. Of course, s/he must understand the system well, but that is more like an outsider's view of the system. It is more important for the CIO to have analytical skills that would be useful in deciding how the data being collected can be used to develop a knowledge base that can be used to make profitable business decisions.

Wordcount: 2354 words

References

[1] Flexport. Retrieved from URL: https://www.flexport.com/about.

[2] Adams, Susan (July 2017). Flexport Wants To Do For Freight Shipping What FedEx Does For Small Packages. Retrieved from URL: https://www.forbes.com/sites/forbestreptalks/2017/07/28/flexport-wants-to-do-for-freight-shipping-what-fedex-does-for-small-packages/#2037b15a5c9e.

[3] Constine, Josh, and, Roof, Katie (September 2017). Freight startup Flexport soars from 'unsexy' to $800M valuation. Retrieved from URL: https://techcrunch.com/2017/09/21/container-full-of-cash/.