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THE AIR-TRANSPORT INDUSTRY has been hit hard by the global economic downturn. Even though many air carriers have reduced their network, having even grounded some of their fleet, financial figures are still extremely poor. These cutbacks are affecting most airports worldwide, causing significant changes in employment structure and worsening financial reports. Also, forwarders and cargo agents, as part of the recent airfreight supply chain, have registered massive declines in both volume and revenue. The industry has reacted with additional measures such as massive cuts in investments, short-time work, salaries, and employee redundancies.

After years of strong growth, we see the airfreight industry catching its breath. This year, 2010, will very likely be a year of recovery and market consolidation. At the same time, whispers of a "new supply chain" are going around. In all honesty, though, what does this "new supply chain" mean in air transport, and who will benefit from it?

Let's be clear: no shipper has ever used or will ever use airfreight without dire need. Of course, there are diverse concepts on the table where air cargo can be less expensive than ocean cargo, but only as part of a full-distribution concept including all associated costs and fees. And it does not work for all commodities and may require values of US\$100,000 or more per ton.

A leading European car manufacturer confirmed that its costs of air cargo, compared to ocean, are up

WILL A "NEW SUPPLY CHAIN" BECOME REALITY IN INTERNATIONAL AIR CARGO?

to 25 times higher. But they are still using air cargo for approximately 50,000 tons per annum. We further know that a leading hi-tech manufacturer has totally renewed its distribution concept and has shifted a large portion of previously air freighted goods to ocean cargo. Because of the longer transportation times, this manufacturer has also invested in several regional buffer warehouses throughout the continent and now uses air cargo for emergency shipments only. In the United States, many previous "overnight" shippers continue to use FedEx or UPS, but, instead of "absolutely, positively overnight," they are now shipping ground and with similar reliability. The difference is the speed: two to four days instead of next morning. A major European textile importer has shifted a significant portion of its routine business from exclusively air cargo to air/ocean, claiming major savings with little impact on total time in transit.

And today? After weak demand throughout the year and massive cutbacks in airlift capacity, shippers

in south China are confronted with a major backlog and extremely high prices for the peak season. But how can this be? Will the previous business environment come back? We noted that hi-tech and electronics manufacturers especially have significantly increased their output to satisfy the obvious demand of consumers in key American and European markets. And on top of that, space issues in ocean cargo are tightening the situation. Major forwarders have already acted by booking plenty of extra full-freighter capacity, even beyond Christmas. All this looks very much like "business as usual" and is redolent of the situation in 2005, 2006, and 2007. The last thing that can be observed here is a real "new" or "improved" supply chain.

During 2009, shippers and manufactures were demanding ever increasing flexibility in terms of modal-shift capabilities of logistics providers. Especially on the distribution side of the business, we see a growing emphasis on the importance of forwarder ground networks. Whether goods are shipped intra-country or brought into a country by air or ocean, major forwarders have successfully established their gateways, enabling them to bundle various modes into a single delivery to the final customer.

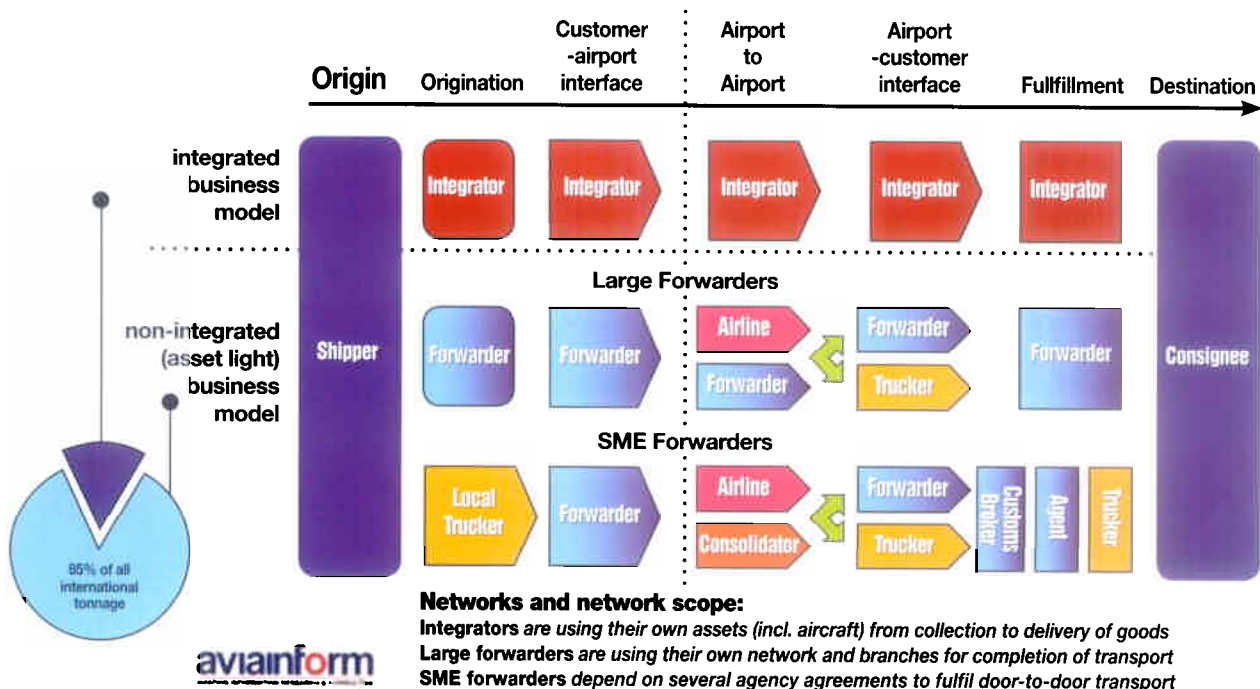
These gateways, acting similar to the HUBs of the integrators, are located mostly in close proximity to a major airport and port. They also play a vital role in the changing supply chain, allowing shippers a total redesign of their delivery strategies. Some major

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forwarders go as far as using their "own" (regional) airport in the United States in such locations as Columbus, Huntsville, and Toledo. And some of the Global Top10 forwarders are using their "own dedicated airlift" in addition to common carriage on scheduled airlines. But this is nothing new to the supply chain, as Panalpina, the Swiss-based forwarding giant, has been flying its "Dixie Jet" linking Huntsville and Luxembourg for several years now, signalling its readiness to take the risk in a different way than most of its competitors. Another example of deepening the cooperation is the partnership of DHL Global Forwarding and Lufthansa Cargo in running the specialist company LifeConEx for temperature-sensitive goods. Both cases clearly demonstrate that spreading the risk will pay off and is honored by long-term customer contracts. Both are also an example of how the airfreight business is increasingly polarized into premium high-quality and low-end interchangeable services.

On one side, we see manufacturers of high-priced, high-quality pharmaceuticals, electronics, or hi-tech products requiring absolutely fast and extremely reliable transport. On the other hand, we have shippers

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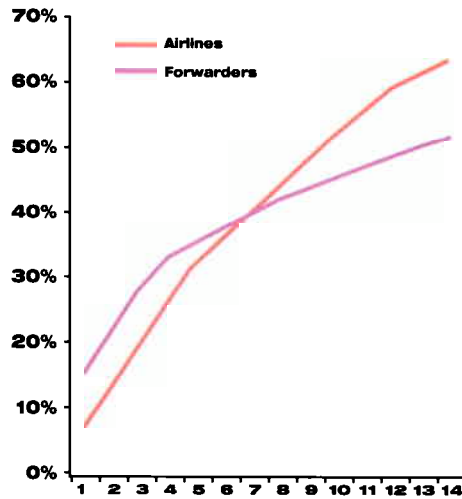
The chart shown above outlines the process of concentration in our business.

NEW SUPPLY CHAIN REALITY Dirk Steiger

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of low-priced, low-value products such as t-shirts and jeans that will primarily seek the lowest rates in air cargo. Clients in the first group are willing to accept higher prices and have a totally different standard of business-provider loyalty. And those in the second group often randomly ship air rather than by plan and have a very high willingness to shift transport mode and/or change the provider due to small cost savings.

Perhaps some of the large forwarding giants can serve both groups simultaneously. There will, however, be thousands of other smaller forwarders fighting for the same business. One of the biggest differences between large and SME forwarders is the scope of their ground networks, where smaller players are not competitive. They mainly depend on common networks from air carriers or motor carriers, offering common RFS to feed or de-feed



The line graph featured above illustrates the world-wide aggregated share of forwarders and air carriers in air freight: just 10 airlines are in command of 50% of the total business and it takes only 14 forwarders to do the very same.

freight between an airport and ultimate location. But without all the synergies of scale from a single, large multi-modal ground network, price competition often

reduces quality of the total transportation.

Unfortunately, many air carriers and even some airports try to stay in this game by heavily subsidizing such transports. During the past horrible months, we have monitored the continuation of such questionable practices. And with all the new passenger aircraft on the horizon, we expect further pressure on full-freighter operators and their forwarding clients. It does not necessarily mean that they'll lose their clients or contracts, but they will surely be squeezed and have to operate under unsatisfactory price and margin conditions.

If this situation results in a "new supply chain," we certainly doubt the mid- and long-term sustainability for both those using the services and those providing the services. It is certainly not what frequent high-volume shippers or financial analysts expect from this dynamic industry.

STRICT SECURITY Hank Ulrich

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What is expected of airfreight forwarding agents

Today airfreight forwarders not only provide booking and documentation, but are responsible for ensuring that the cargo is packaged and labeled correctly for air shipment.

What becomes of the services of the medium-to-small forwarding agents who cannot afford the scanning equipment? What happens to the services they performed to assure IATA that the goods were properly packaged and labeled for airfreight? It may be that the new CCSP will have to handle those services also.

Investment in additional systems and procedures will be placing a burden on all of us in the logistics chain. Security surcharges billed by the airlines could be increased to account for the expense. There are several others who will need to have the ability to charge for those expenses as well. Shippers either need to cut their margins or, more likely, increase their unit price for

a security charge and pass it on to the end of the supply chain—the customer—you and me.

These new security requirements may create an opportunity for niche businesses to provide security verification right on the tarmac. You will see companies being developed with cargo-scanning devices at their facility and setting up an assembly-line approach to inspecting.

Technology on the horizon to deal with this issue

Technology can provide an end-to-end solution that will reach far beyond where it is today. The security methods need to address both shipper and consignee requirements. They are the ones in the end who will pay for the expense of this. You will be seeing portable phones capable of providing proof of delivery. Smart trucks will be an option just as "reefer" trucks are today. The smart truck will provide for sensor control to do much of the detection that is being done by large scanning equip-

ment today. But this will be done at the truck level as cargo crosses the threshold of the truck as goods are delivered to the airport. Security is, after all, something from end to end and not just the burden at the airport.

More than likely, we will all be paying for the additional costs of security at a very low incremental cost, but, in sum, it may appear to be very high. Security work needs to be strong at each of the links in the distribution chain—not just at the airport. Let's make it secure at the plant and provide the security enablement from the beginning of the chain to the delivery of goods to the designated consignee.

Hank Ulrich is the President of e2e Logistics Consulting, Inc. He has developed systems for the industry since the early 1970s, including work for CNS in providing the air-waybill numbering system and statistical reporting that you received. His past clients include Fortune 100 corporations, large forwarders, and ports.