



Air Cargo Perspectives 2009



Leading air cargo companies share their perceptions on important trends shaping the trajectory of today's global supply chain.



What goes up must come down—and the air cargo industry is flying circles as it waits for that maxim to reverse itself in this current economic lag.

Demand for expedited airfreight services has been muffled by efforts to reduce costs as fluctuating fuel prices and scant demand ground assets in other areas of the supply chain.

But globalization is a certainty and cargo needs to fly, so airlines, air cargo service providers, and airfreight shippers are making sure progress, in spite of external turbulence, by investing in technology, finding partners, and improving logistics and supply chain business processes as economic clouds slowly dissipate.

Inbound Logistics' Air Cargo Perspectives explores the challenges and opportunities shippers and service providers face in these dynamic times. Soliciting feedback from more than 50 airlines, airfreight forwarders, expeditors, and third-party logistics providers, our annual air cargo market overview

provides an eye-over-the-sky look at how the industry is faring and where it is flying.

In concert with this perspective, *IL's Who's Who in Air Cargo* (page 40) provides snapshots of companies that are taking airfreight shippers to new heights of innovation and collaboration. We present drill-down data on the types of services and capabilities these companies bring to the market in an effort to help shippers find partners paired to their unique needs.

FLYING UNDER THE RADAR

One thing is clear in an otherwise murky global forecast: the widespread economic malaise has been unequivocally democratic in its impact on airfreight service providers.

Soaring operational costs and slackening demand for airfreight services

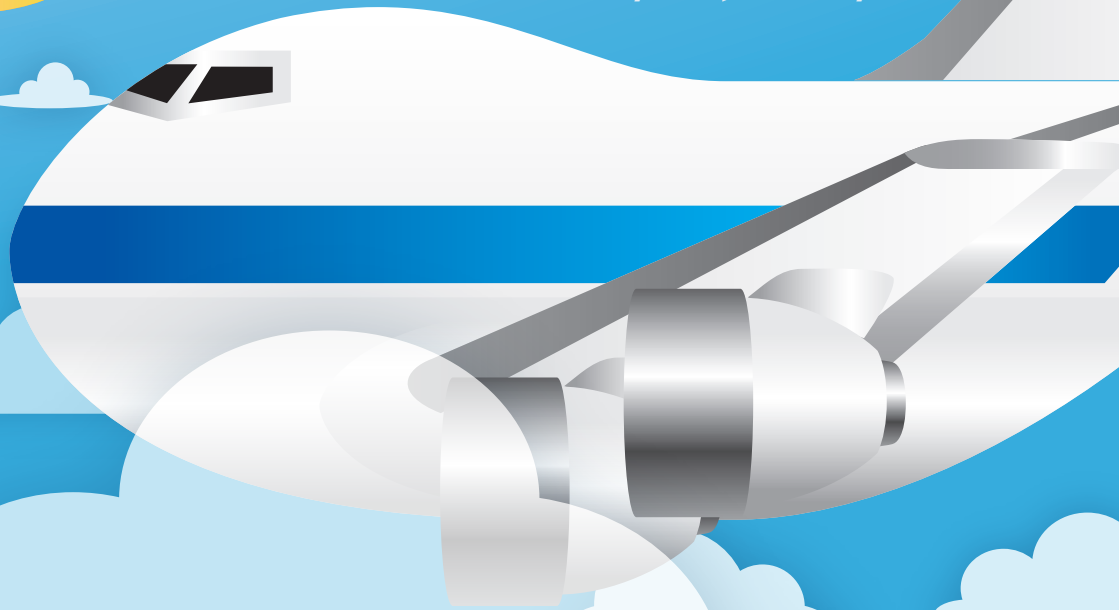
have struck asset-based and non-asset-based air cargo companies alike. Carriers operating their own fleets have been pressed to idle aircraft, mix and match cargo-specific and combi services to achieve higher load utilization factors, and concentrate on stronger performing markets.

Last summer's fuel surge gave carriers greater cause as they looked to offset maintenance expenses with other efficiencies and pass-along surcharges. Airfreight forwarders and third-party logistics service providers with core air cargo capabilities have had their own share of challenges finding business in a contracting, air-expense-averse economy, and expanding their portfolios with new services to counter unassailable market constraints.

Air cargo companies responding to *IL's* market insight survey report a marked U-turn in sales growth over the past year. On average, companies witnessed sales drop 1.5 percent, with more respondents indicating break-even or lost sales (53 percent) than growth beyond five



IL Exclusive Research
by Joseph O'Reilly



percent (47 percent), compared to 87 percent in 2008.

Profit margins were equally dire, with one in two air cargo companies reporting no gains or a loss in profit. Last year, 79 percent of survey participants cited profits above five percent; this year only 44 percent indicated as much.

Cargo companies overwhelmingly point to the global economic downturn as the contributing factor for lackluster sales and profitability figures. For those that notched positive gains, customer focus was a common denominator—good or bad.

“Sales and profit growth are a result of improvements in service and capacity planning,” one respondent reports. Another participant gained market share as weak suppliers could no longer meet service-level expectations.

Survey respondents indicate they are looking to counter volume attrition by finding new business. Collectively, air cargo companies grew their client base nearly four percent, with 50 percent growing their rosters by at least five

percent; of those, one-quarter reported an up-tick of 10 percent or more.

Still, one-third of survey participants acknowledged no change in the number of customers and 17 percent lost business. “Our customer base experienced a slight decline due to industry consolidation and ‘known shipper’ requirements,” reports one air cargo company.

Carriers have a captive, if cash-strapped audience, and are competing among themselves for business. This has

increased pressure to pursue consolidation and alliances as airlines consider complementary partnerships in emerging and existing markets that may make them more competitive in the long run.

Meanwhile, third-party logistics service providers and airfreight forwarders are flying under each other’s radars to tap growth opportunities with new customers. Non-asset-based logistics service providers have the “flexibility of diversity”: 3PLs, with their full slate of service

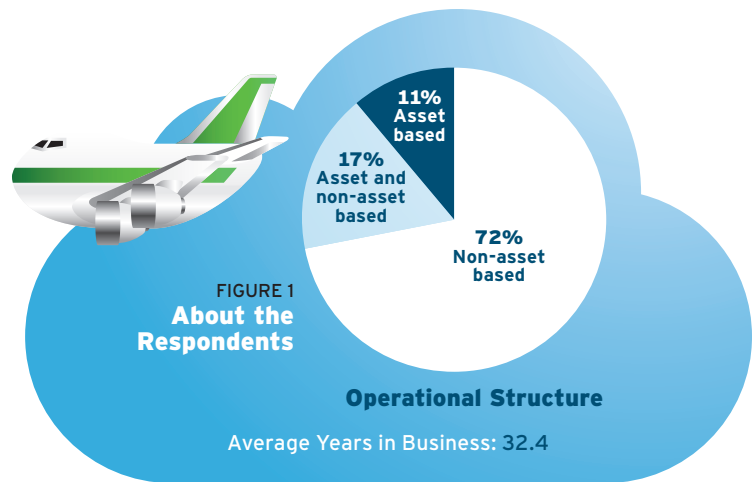


FIGURE 1
About the Respondents

and technology capabilities, are cross-selling through the supply chain to mine new opportunities. Forwarders, in turn, are expanding their operational expertise beyond air cargo handling to offer shippers a more complete solution.

Airlines are looking at ways to improve productivity by merging asset and capacity demand across cargo and passenger services. Many have shuffled service frequencies and idled or downsized aircraft where and when necessary to achieve better economies of scale and fuller payloads. To some degree, this has made it a more difficult sell for forwarders trying to match shrinking capacity and soaring rates with discretionary airfreight buyers.

AIRFREIGHT SERVICE: TOUCH AND GO

Simplifying the business and removing touches remain priorities for airfreight service providers, and many are leveraging technology to ease shipper apprehensions and cement their value proposition beyond cargo handling. Web-based tools such as real-time shipment tracking are the norm, with every surveyed company reporting these capabilities.

Online customs and import/export documentation (77 percent) and rate quote services (75 percent) are gaining in popularity as well. Survey respondents also cite increasing demand for and availability of purchase order management solutions, customized reporting, EDI, and E-mail alerts.

Technology penetration within the air cargo space is likely to spike considerably in the next few years with pressure from industry to apply green standards and reduce excess paper documentation. The International Air Transport Association's landmark e-freight program is still gathering support as it continues its global pilot phase (see *Cleared for Takeoff*, pg. 28), but many air cargo companies are already engaging online tools

to reduce paperwork and increase efficiency.

In terms of services, moving cargo via air is specialized regardless of intent or content. Shippers expect proper packaging, handling care, customs paperwork, and security compliance, warranting a core suite of capabilities to meet those demands.

Heavy freight, next-flight-out, charter, and high-value shipment services are core airfreight offerings—more than 90 percent of companies offer these capabilities—closely followed by door-to-door (89 percent) and overnight (86 percent). Hazmat and perishable shipments require more specialized expertise, and 83 percent and 64 percent of air cargo respondents provide these types of services, respectively.

As is the nature with third-party logistics providers and freight forwarders that moonlight beyond their core operational pedigrees, many provide a cross-section of non-airfreight-specific services. Eighty-seven percent of surveyed companies operate as NVOCCs, 86 percent provide logistics and ocean freight forwarding services respectively, 72 percent assume the role of customs broker, and 69 percent act as consolidators.

AIR TRAFFIC CONTROLS

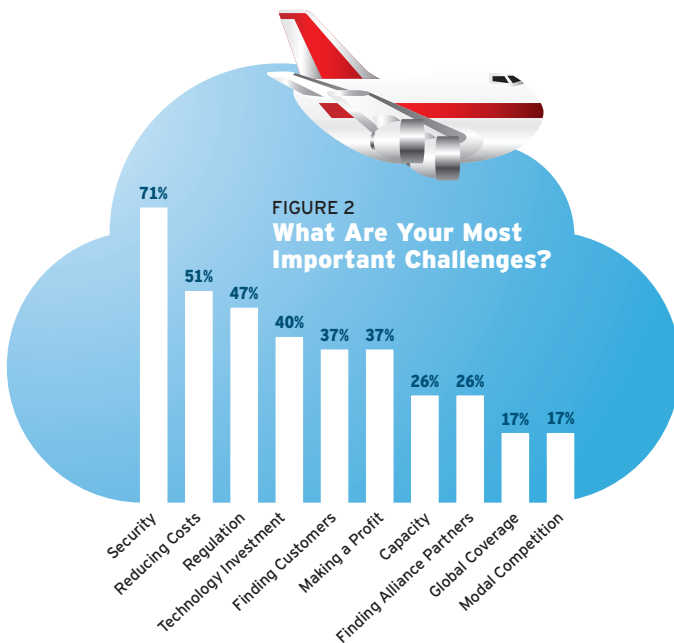
For asset-based carriers and expeditors, non-asset-based forwarders and 3PLs, core air cargo shippers, and airfreight-by-exception buyers, challenges are myriad and manifest given the nature of shipping by air.

In the post-Sept. 11 era, security remains the overwhelming priority for air cargo service providers (see *Figure 2*). Reducing costs (51 percent), regulation (47 percent), technology investment (40 percent), finding customers (37 percent), and making a profit (37 percent) round out other top concerns.

While security and regulatory protocol have gradually expanded in the legislative ether following Sept. 11, shippers are now beginning to feel the weight of emerging compliance requirements. The Transportation Security Administration's (TSA) 100-percent screening mandate for all cargo loaded on passenger flights is still on target for an August 2010 deadline. Its 50-percent screening requirement went into effect in February of this year.

To some degree, security, economy, and technology are all inherently tied as both government and the private sector explore means to secure and expedite freight without creating supply chain backlogs. Supply chain visibility and security go hand in hand, provided that expectations and objectives are aligned, and the necessary processes and technologies are present to facilitate compliance. Many shippers are just grasping the importance of these objectives and are relying on their supply chain partners to allay any behavioral changes.

Beyond normal expectations, air cargo companies are voluntarily taking initiatives to comply with TSA mandates. The Certified Cargo Screening Program (CCSP) and Certified Cargo Screening Facilities (CCSF) are efforts to push security



compliance deeper in the supply chain, identify and reward known shippers, and facilitate risk assessment at point of origin rather than point of departure. Shippers and service providers have a stake in following these self-imposed guidelines to smooth out any wrinkles before these standards become mandatory.

Many air cargo companies are already in compliance with

priority, followed by managing supply lines (54 percent), reducing labor costs (51 percent), business process improvement (46 percent), reducing inventory (43 percent), and vendor management (40 percent) (see Figure 3).

Service provider bias is evident in the fact that reducing assets and/or infrastructure, IT strategy and implementation, and security/compliance are lesser concerns. Shippers may be leaning on transportation and supply chain partners to manage and/or mitigate costly investments in technology and assets, or get up to speed with pending regulatory measures, but some are bringing responsibility for managing costs and compliance in-house. The TSA's CCSP and CCSF programs have engendered a great deal of support from the shipper community, particularly among those that rely heavily on air cargo transport.

Squeezing transportation costs is a priority for air-freight buyers, given economic and consumerism trends. Practical cost-cutting considerations necessarily direct shippers to explore potential efficiencies upstream in the supply chain, including more effectively managing vendors and supply lines, and driving business process improvements.

For some air cargo service providers, presumably those with core capabilities and less-diversified logistics services and resources, this presents a double-edged sword: empowering shippers and consignees to build more flexibility, responsiveness, and lead time farther back in the supply chain, rather than depend on expedited and expensive cargo services to manage exceptions, can take business away. If anything, it creates a more competitive space for pure-play air cargo companies and more competitive pricing for shippers.

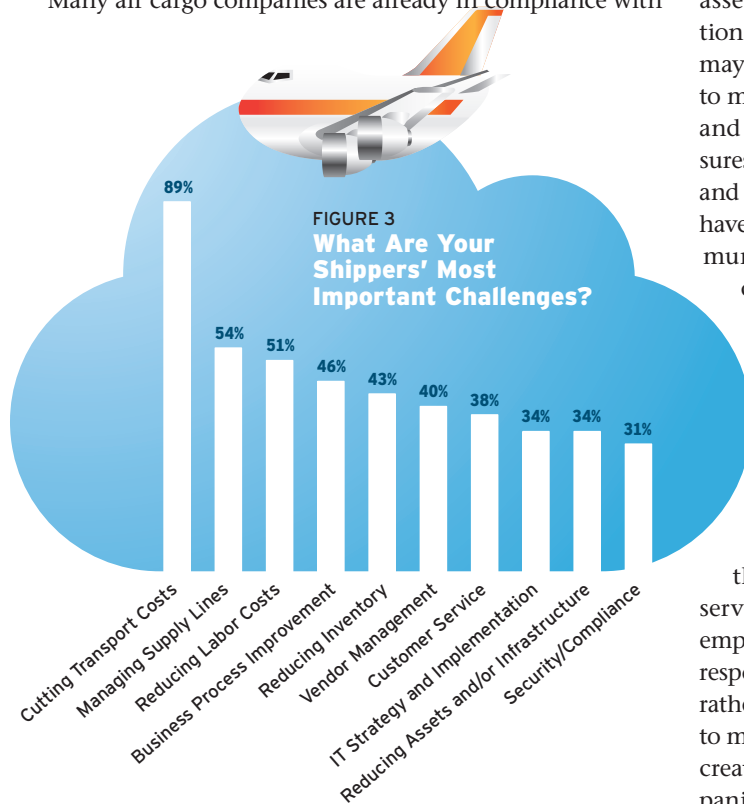
It also opens up opportunities for intermediaries with more developed end-to-end solutions that allow customers greater latitude in how they strategically manage their supply chain and mix and match modes to organically expand their business.

WHO'S WHO IN AIR CARGO

To give airfreight buyers a more complete listing of leading air cargo companies in the marketplace, *Inbound Logistics* invited airlines, expeditors, air-centric 3PLs, and forwarders to submit their credentials for our annual directory.

Our database provides a surface-level cross-section of air cargo service providers with drill-down snapshots of the different services, Web solutions, and value-added offerings these companies provide. From smaller non-asset-based forwarders with niche operational areas to global, asset-heavy airlines, and all breeds in between, *IL's Who's Who in Air Cargo* presents an informational beacon for shippers to explore solutions and solutions providers that meet their unique business requirements.

Turn the page and find out what's what among our Who's Who in Air Cargo. ■



U.S. Customs Border and Protection's C-TPAT initiative, with 39 percent of survey respondents meeting this criterion.

That only 17 percent of survey respondents cite modal competition as an industry challenge belies the fact that shippers are increasingly looking at cost-competitive transportation alternatives. As with surface-bound rail/intermodal solutions, steamship lines and trucking companies are setting the table to capture some demand by offering guaranteed ocean-road services. While courting such opportunities may warrant sea-changes in how businesses account for longer lead times, the promise of leveraging ocean and truck or sea-air combinations to manage and expedite last-mile moves is beginning to gain credibility.

SHIPPER LINE OF FLIGHT

Just as carriers are looking to squeeze better mileage and efficiency out of their assets, shippers are bound to rationalizing their use of airfreight services, consolidating orders, and using more expensive transport options only as demand necessitates.

Among perceived shipper challenges, 89 percent of survey respondents identify cutting transport costs as customers' top

*** KEY:**

Asset- or Non-Asset-Based:

A = Asset-based; N = Non-asset-based;
B=Both

Compliance:

Shipments comply with government, security, and trade regulations

Documents:

Shippers can book/create customs or import/export documents online

WEB SERVICES

VALUE-ADDED SERVICES AND SPECIALTIES

RATE QUOTES

REAL-TIME TRACKING

DOCUMENTS *

OTHER WEB SERVICES

CERTIFICATIONS

VALUE-ADDED SERVICES AND SPECIALTIES	RATE QUOTES	REAL-TIME TRACKING	DOCUMENTS *	OTHER WEB SERVICES	CERTIFICATIONS
Purchase order management		✈	✈	Purchase order management	C-TPAT, IATA, Hazmat
Chemicals, project logistics, fairs & events		✈	✈	e-government solutions, origin cargo management	
In-home, pharmaceuticals, government, automotive, energy, oil & gas	✈	✈	✈	EDI, PO and inventory management	IATA, TAPA, C-TPAT
Live animal shipment services	✈	✈	✈	Booking requests	Cool chain certification
Domestic/international trucking & brokerage, warehousing, project cargo, ocean, global DDP, AES, consulting		✈	✈		FMC, NVOCC, IATA, C-TPAT, DOT
All services relating to international air freight	✈	✈	✈	Global reporting system	ISO 9001:2000, C-TPAT, DGAC, Six Sigma, ACC Responsible Care
Hand carry, deferred	✈	✈	✈	POD tracking	
Time-critical, hotshot, LTL, FTL, asset recovery, trade show	✈	✈	✈	Shipper's letter of instruction	
ClimateSecure, PetSafe, human remains		✈		Carbon footprint calculator, shipment booking	
Supply chain development, consulting		✈		E-mail alerts, GPS tracking	ISO, C-TPAT, IATA
Logistics management, warehousing, European rail, ground	✈	✈	✈	Shipment scheduling and booking	ISO 9001, SmartWay
Live animals, human remains, pharmaceuticals		✈		Shipment booking, e-Billing	
Free trade zone, project cargo, border crossing, ground freight, transload/crossdock, defense/government, consolidation & distribution		✈		Customized reporting, EDI	ISO 9001:2000, C-TPAT, Cargo 2000 Phase 2
Trade show & conventions, vehicles, film and broadcast industry	✈	✈		e-Billing	
Distribution, insurance, order management, project cargo		✈	✈	Quote monitor, shipment booking	ISO 9000
Time-definite, expedited services	✈	✈	✈	Pickup scheduling, POD capture, claims, reporting	
Full ground options	✈	✈		Online pick up requests, custom tracking and report detail, EDI	ISO 9001
Trade consulting services, project cargo & management	✈	✈	✈	Online reporting, purchase order management	ISO 9000:2000

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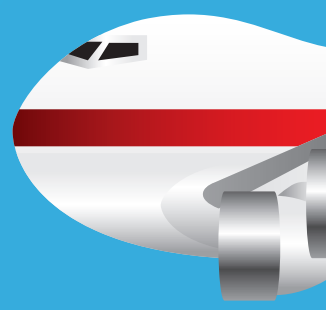
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VALUE-ADDED SERVICES AND SPECIALTIES	WEB SERVICES			OTHER WEB SERVICES	CERTIFICATIONS
	RATE QUOTES	REAL-TIME TRACKING	DOCUMENTS *		
Insurance solutions	✈	✈	✈	Order management integration	Cargo 2000 Phase 2
Supply chain management, scheduled Alaska service, trade show, home delivery	✈	✈	✈	Reporting, invoicing, EDI	
Same-day, hand carry, FCL, LCL, hotshot, LTL, truckload, warehousing, distribution management		✈		EDI	ISO 9001:2000, C-TPAT, BASC, SmartWay
Warehousing & distribution, pick/pack, kitting, labeling, assembly, returns, order & inventory management		✈	✈		ISO 9001:2000, C-TPAT, IMDG/CFR49 Hazmat, IATA Certified
End-to-end supply chain management solutions and intercontinental air/ocean freight		✈			ISO 9001:2008, ISO 14001:2004, OHSAS 18001
Expedited ground, elite services	✈	✈		Order entry	ISO 9001:2000
Warehousing, white glove service, global routing center		✈		EDI, handheld POD	ISO9001:2000
Cargo insurance	✈	✈		Shipment status information, printable forms	
Warehouse management, government & automotive services, home delivery	✈	✈	✈	E-mail alerts, EDI	ISO 9001:2000, C-TPAT,TAPA, SmartWay
Export licensing, packing, crating, bonded warehousing, purchasing	✈	✈	✈	Online invoices, statements, inventory services	
Warehousing and distribution, transborder services, finished goods distribution	✈	✈	✈	Purchase order management	ISO, IATA, C-TPAT, TAPA
AOG 24/7, aerospace, oil and gas, healthcare, cosmetics, wines and spirits		✈		Project and purchase order management, WMS	ISO 9001:2000, ISO 14001:2004, ISO 18001-2004, C-TPAT, Hazmat, IATA, FMC, Cargo 2000
Supplier PO management, Customs audit review, U.S. home delivery, trade show, aviation/aerospace, fashion/retail, pharma	✈	✈	✈	MySEKO booking, interactive shipment calendar	ISO 9001:2000, C-TPAT, TSA, PDMA and Hazmat, IATA, ITAR
Ground shipping services, trade show, health care, furniture, CPG	✈	✈	✈	Shipment booking, management reports	IATA, C-TPAT
Letters of credit, warehousing, distribution, packing, crating, white glove, trade show services		✈		Customs reports	ISO 9001:2000, C-TPAT, SmartWay
Full-service logistics provider	✈	✈	✈	Purchase order management, reports	
Consolidation, transload/crossdock, DC bypass, hand carry, rail intermodal, ground freight	✈	✈	✈	Pickup scheduling, e-Billing, reports	ISO, C-TPAT
Medical equipment, trade shows	✈	✈	✈	Automatic e-mail updates	