

# **Air Cargo: Growth In A Period Of Global Economic Uncertainty**

*Presentation By:*  
David F. Hoppin  
Principal



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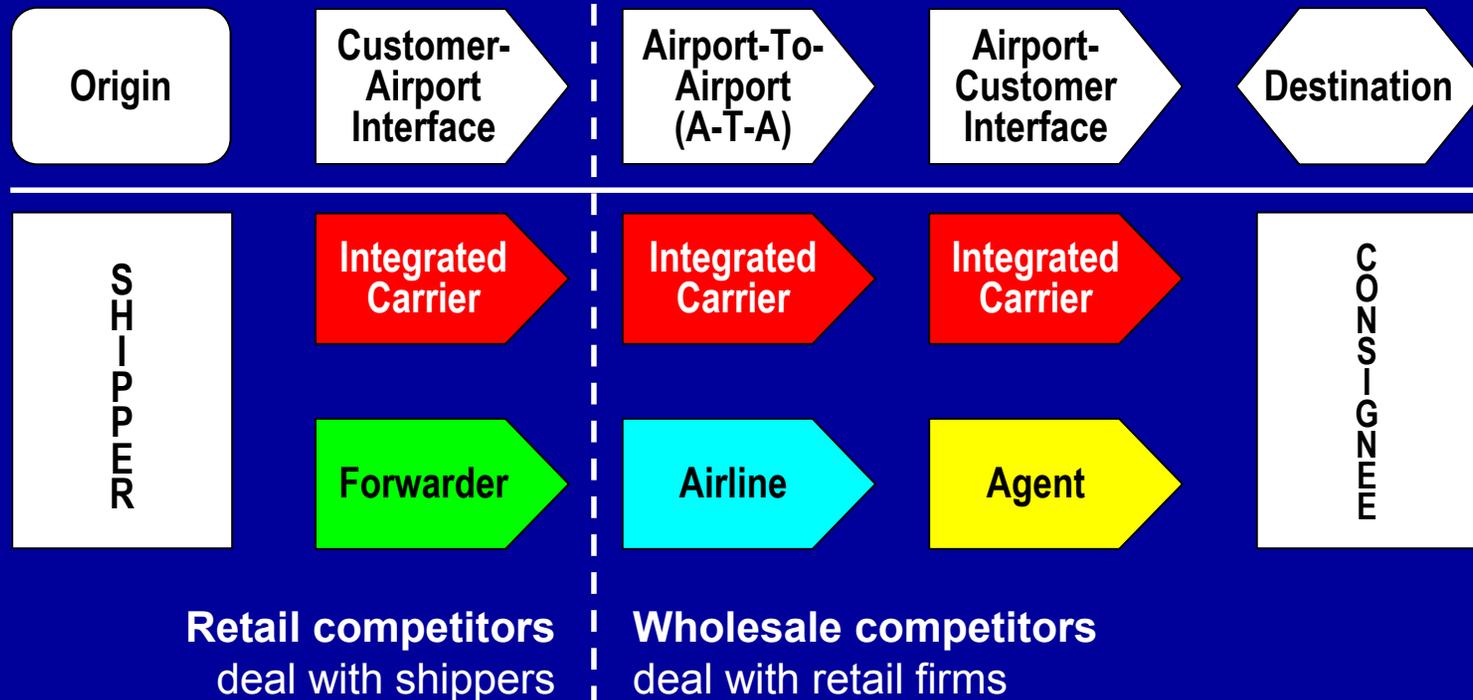
## Agenda

- Air Cargo Industry Overview
- Key Trends
- Survival Strategies

# **Air Cargo Industry Overview**

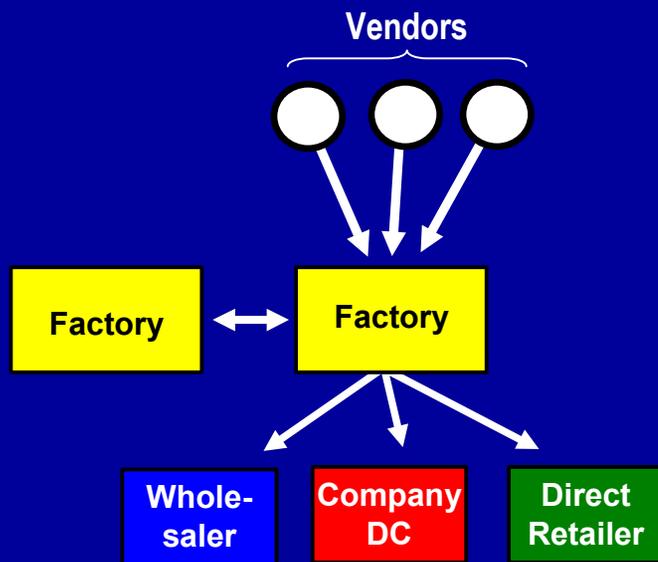
**There are two basic business models: integrated and non-integrated.**

**Air Freight “Value Chain”**

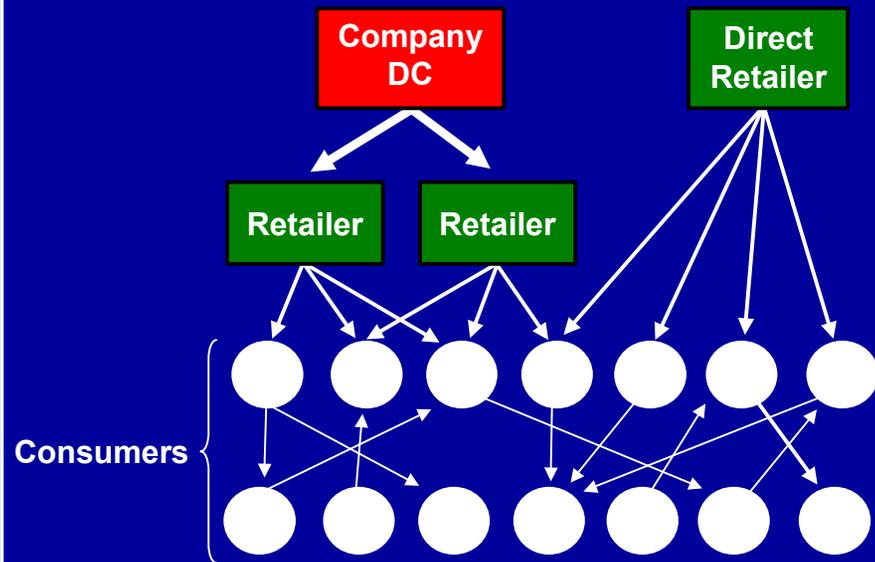


# There is a broad distinction between supply-chain and distribution flows.

## Supply Chain Segment



## Outbound Distribution Segment



O&D	Few-to-few	One-to-Many / Many-to-many
Shipment Weight	Over 500 pounds	Under 500 pounds
Frequency	1-2 per week	Daily
Service	Time-Definite	Time-definite / Time-critical
Pricing	Volume Driven	Service-driven

**Both supply-chain and distribution flows can be segmented by velocity and shipment size.**

### Illustrative Cargo Market Segmentation

		Velocity			
		Fastest	Fast	Slow	Slowest
Size	Heavy/Outsize Piece				
	Unitized Multiple Small Packages				
	Multiple Small Packages				
	Single Package				
	Letters				

The boundary between “small packages” and “hard freight” is hazy.

### Illustrative Cargo Market Segmentation

		Velocity			
		Fastest	Fast	Slow	Slowest
Size	Heavy/Outsize Piece				
	Unitized Multiple Small Packages		<b>Hard Freight</b>		
	Multiple Small Packages				
	Single Package		<b>Small Package</b>		
	Letters				

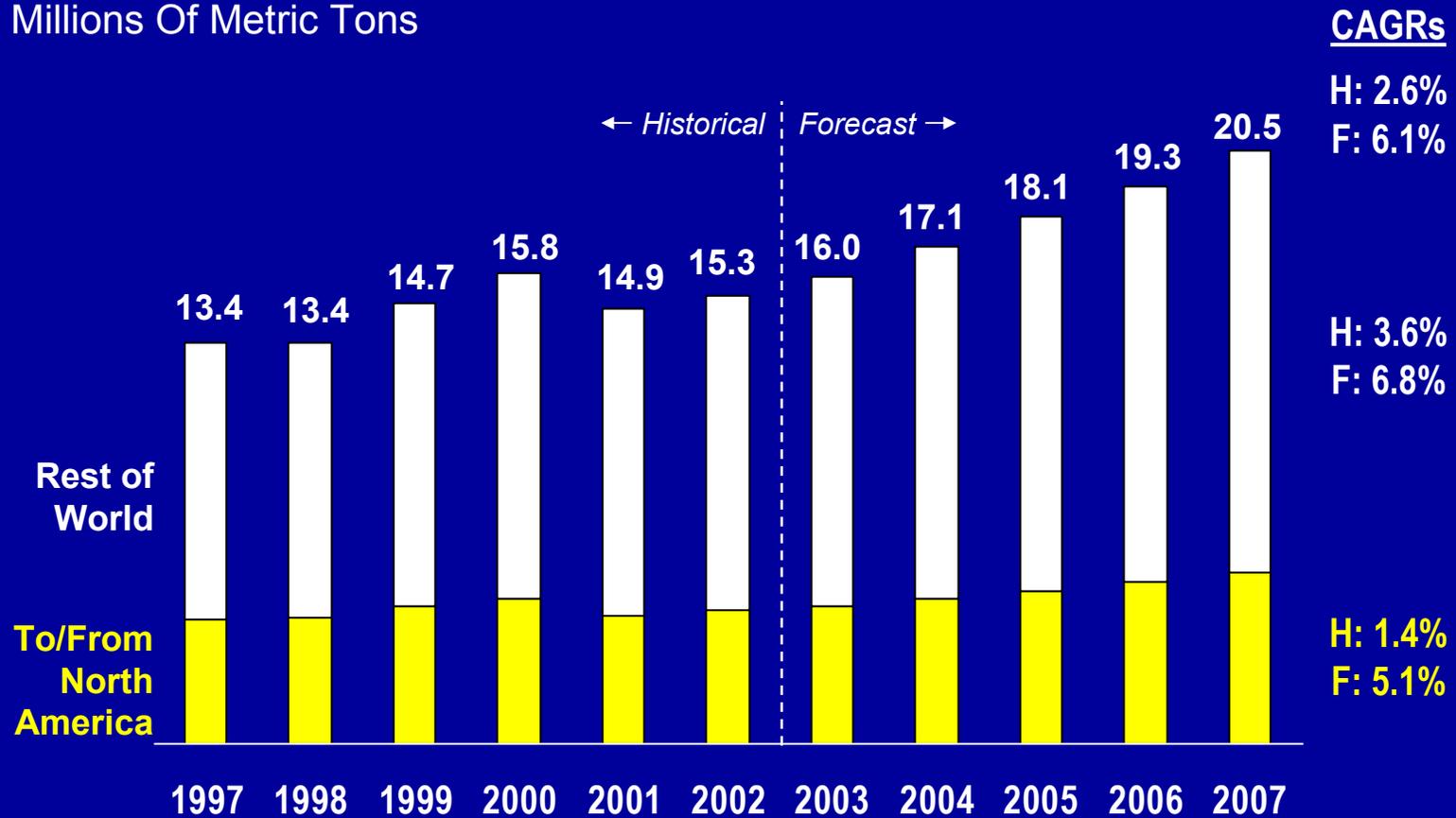


# **Key Trends**

# Air freight is a volume growth industry.

## World International Air Freight: 1997-2007

Millions Of Metric Tons

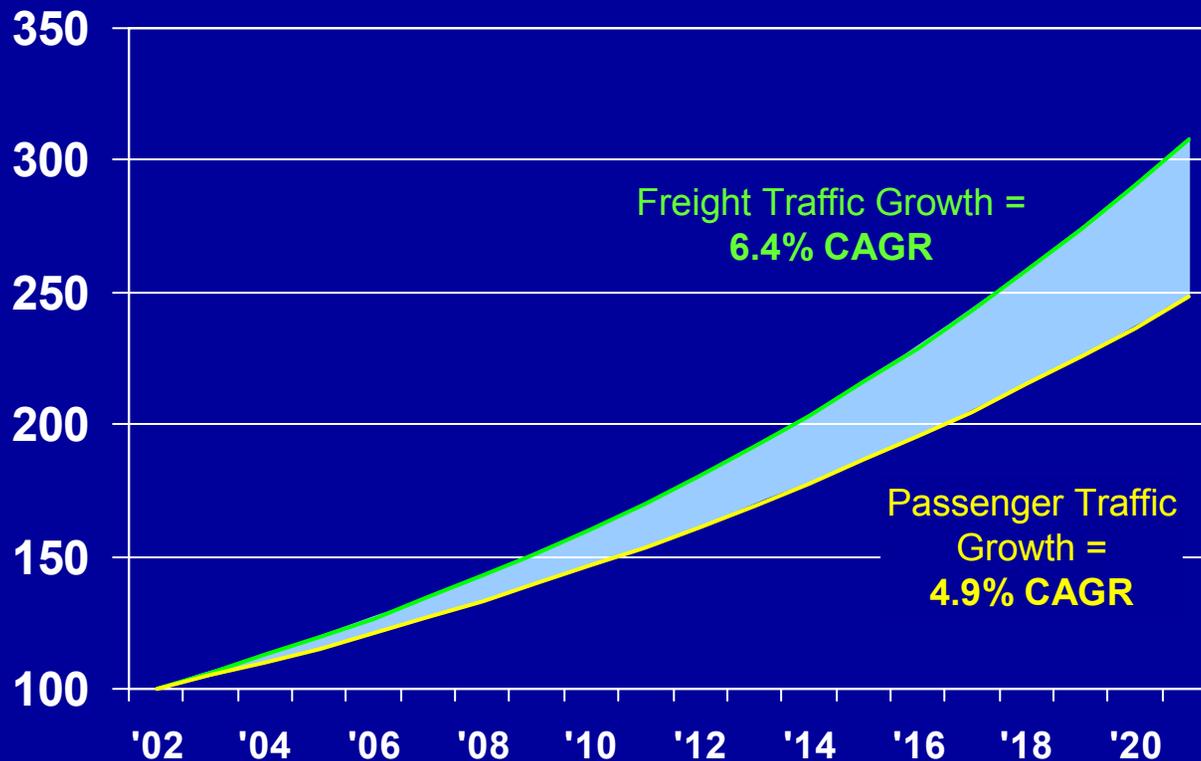


Source: MergeGlobal, Inc. FreightFlow model. Based on macroeconomic forecast from Oxford Economic Forecasting Ltd.

**Belly capacity additions depend on passenger traffic growth. Worldwide, passenger demand growth will not keep pace with air freight.**

### Belly/Freight “Growth Gap”: 2002-2021

Index (2002 = 100)



Source: MergeGlobal, Inc. from Boeing Current Market Outlook – 2002 and World Air Cargo Forecast – 2002.

## Yet air freight yields have been in long-term decline once the effect of inflation is removed.

- Growth of containerized belly capacity
- Reduced regulatory price controls
- Longer lengths of haul (rise of Asia as the world's manufacturing center)

### International Air Freight Yields: 2002-2019

Index (2002 = 100)



Source: Boeing World Air Cargo Forecast – 2002.

# **Survival Strategies**

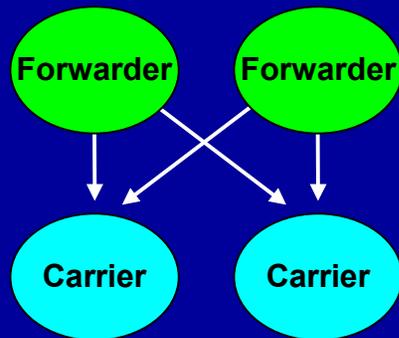
## **We expect industry consolidation to continue – but also a steady stream of new-entrant freighter airlines.**

- **Established competitors will pursue deeper horizontal and vertical integration**
  - Revenue benefits from network scope, scale and quality
  - Gain market power to pursue revenue-segmentation strategies
  - Leading example is Lufthansa Cargo, which has created multiple products aimed at distinct market segments
  
- **New entrants will focus on price leadership**
  - Enabled by low-cost aircraft and crews
  - Concentrate on selling to one or few major customers
  - Examples include Kalitta and Pacific Air Services Company (co-founded by Ned Wallace, founder of Polar Air Cargo)

# The air freight industry will continue to consolidate – with growing horizontal and vertical integration.

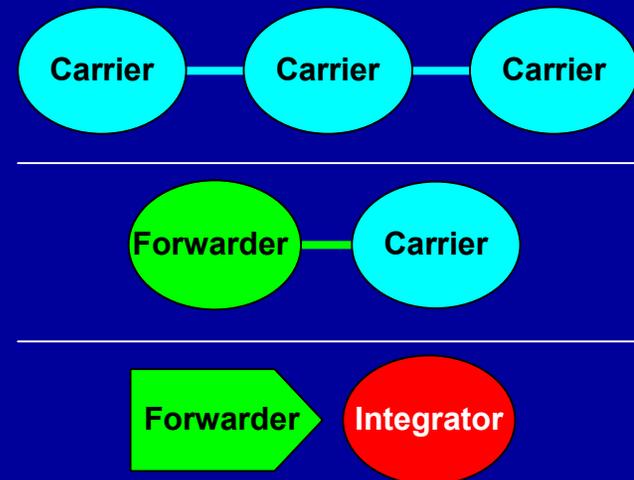
## EVOLUTION OF INTERNATIONAL AIR FREIGHT MARKET

1990s



- Arms-length transactions
- Incremental improvements but “business as usual”

2001 - 2004

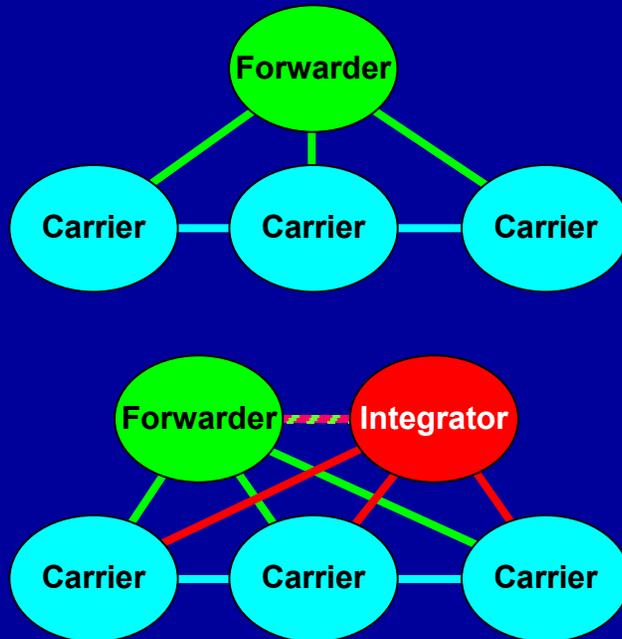


- Network scope-driven horizontal alliances between carriers
- Integrated carrier acquisition of forwarders to expand into freight segment
- Forwarders partner with carriers to develop regional specialized services

# The air freight industry will continue to consolidate – with growing horizontal and vertical integration.

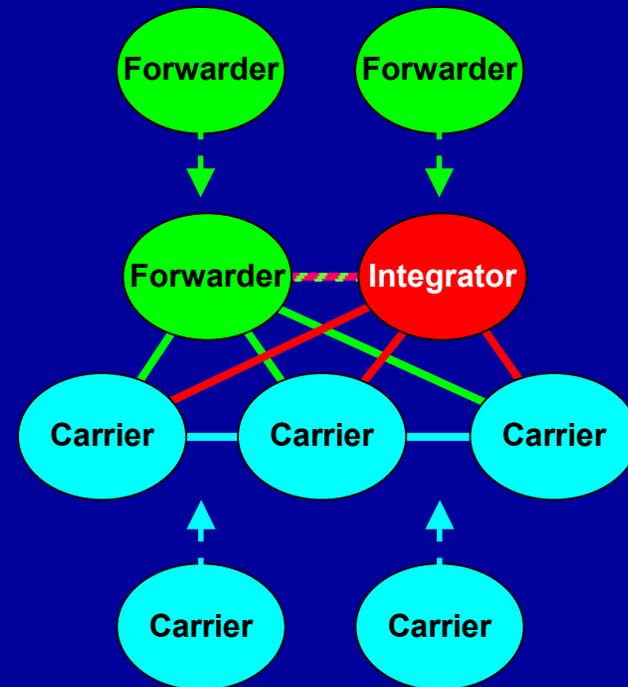
## EVOLUTION OF INTERNATIONAL AIR FREIGHT MARKET (CONTINUED)

2005 - 2008



- Forwarders and/or integrators team with global capacity providers to develop unique service offerings

Post 2008

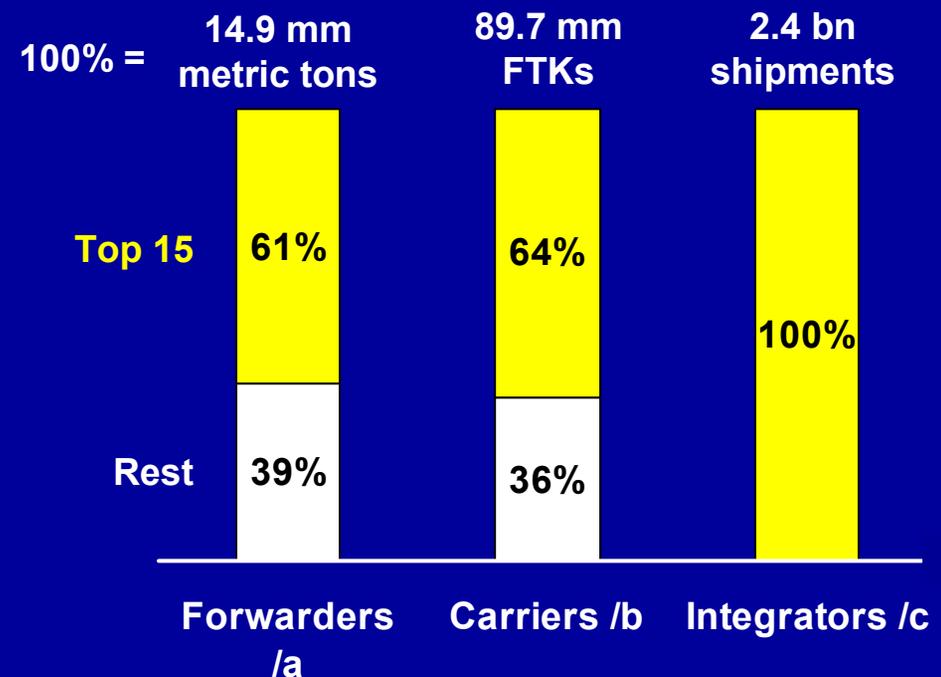


- Most remaining industry participants align themselves with appropriate alliance constellations

## The consolidation trend is well underway...

### TRAFFIC SHARES: 2001

- Forwarders are free to acquire and merge as they see fit.
- Carrier consolidation is limited by national-ownership rules.
- Integrator business model requires large-scale operations, so there are virtually no small players.



/a International air freight traffic only.

/b IATA members only. FTK – Freight Tonne-Kilometer.

/c Integrators defined as: Airborne, DHL, FedEx, UPS and USPS. Data represent U.S. air and ground parcel shipments.

Source: MergeGlobal, Inc. primary research, IATA World Air Transport Statistics, company reports.

# Summary

## Summary

- Long-term demand growth will continue
- “Growth gap” is real – freighters will account for a rising share of airlift capacity
- No shortage of freighter aircraft = no shortage of new entrants, and no reduction in rate competition
- Industry consolidation will continue – with both horizontal and vertical integration
- Details available in the current Lufthansa Cargo *Planet* magazine

