



'Competing for Air Cargo'

"A Qualitative Analysis of Competition in the Air Cargo Industry"



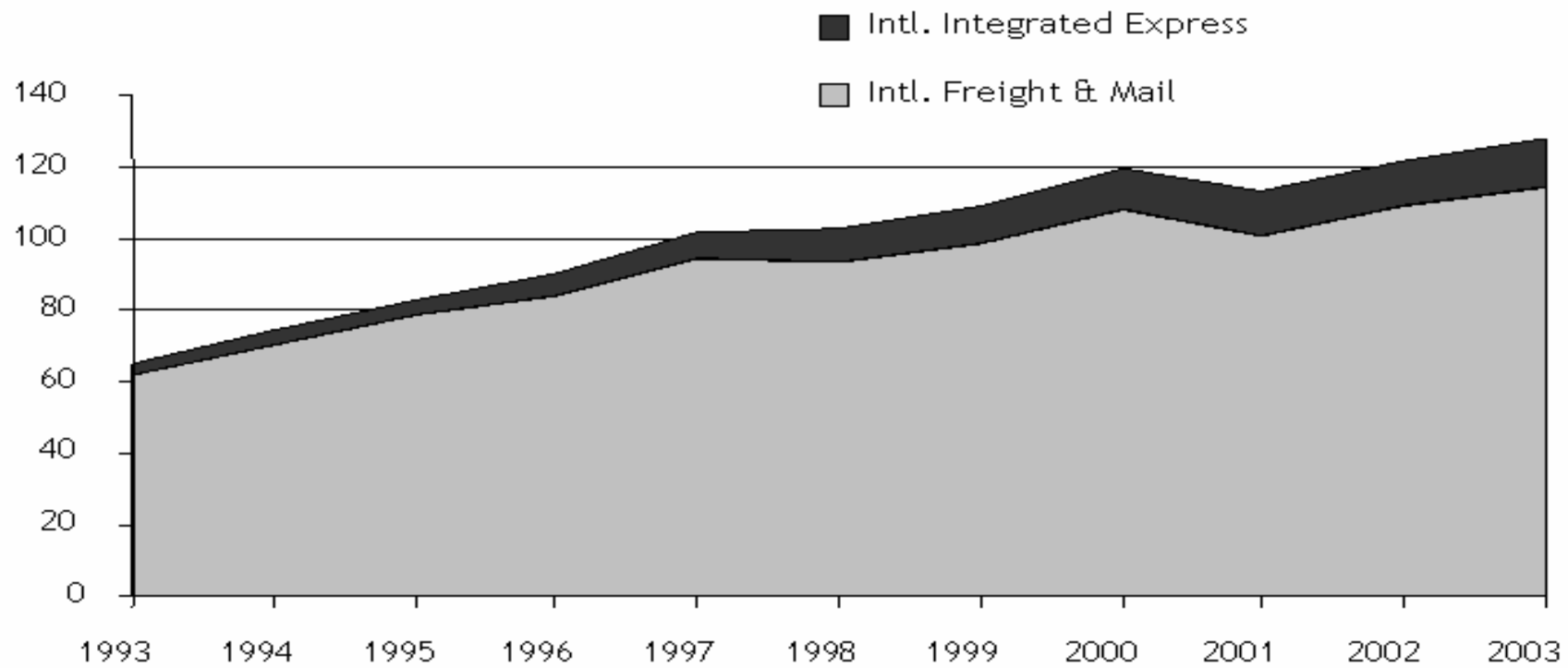
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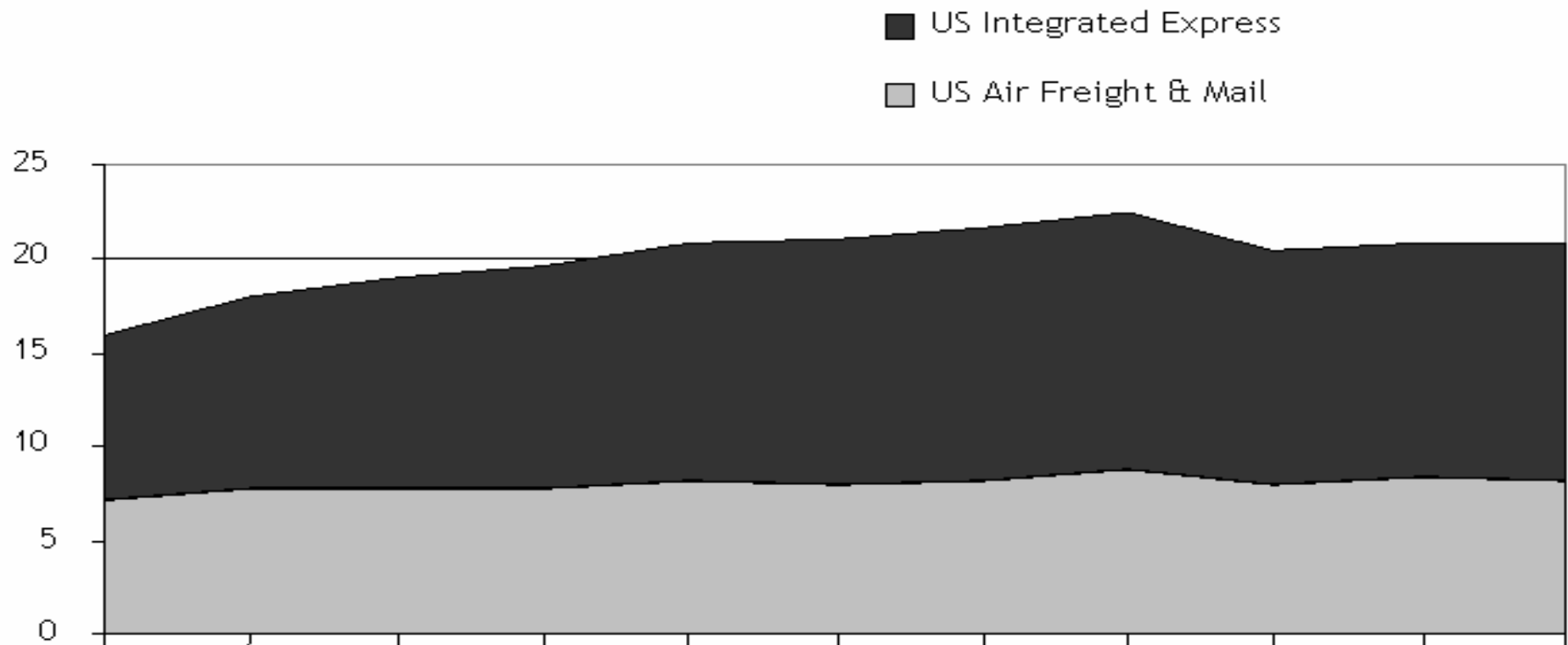


Content of the Presentation

- Research Background;
- Introducing Air Cargo;
- Methodology;
- Concluding Remarks.



US Air Cargo Traffic in Billion RTKs





Research Question

*“Based on a Strategic Planning Methodology,
is it possible to prove that
the Airline Cargo Market is losing
the Battle over the Air Cargo Industry from
the Integrated Express Market?”*



Introducing Air Cargo

- Air Cargo Industry + Sub Systems;
- Historical Milestones;
- Supply Chain Analysis.



Air Cargo Industry + Sub Systems

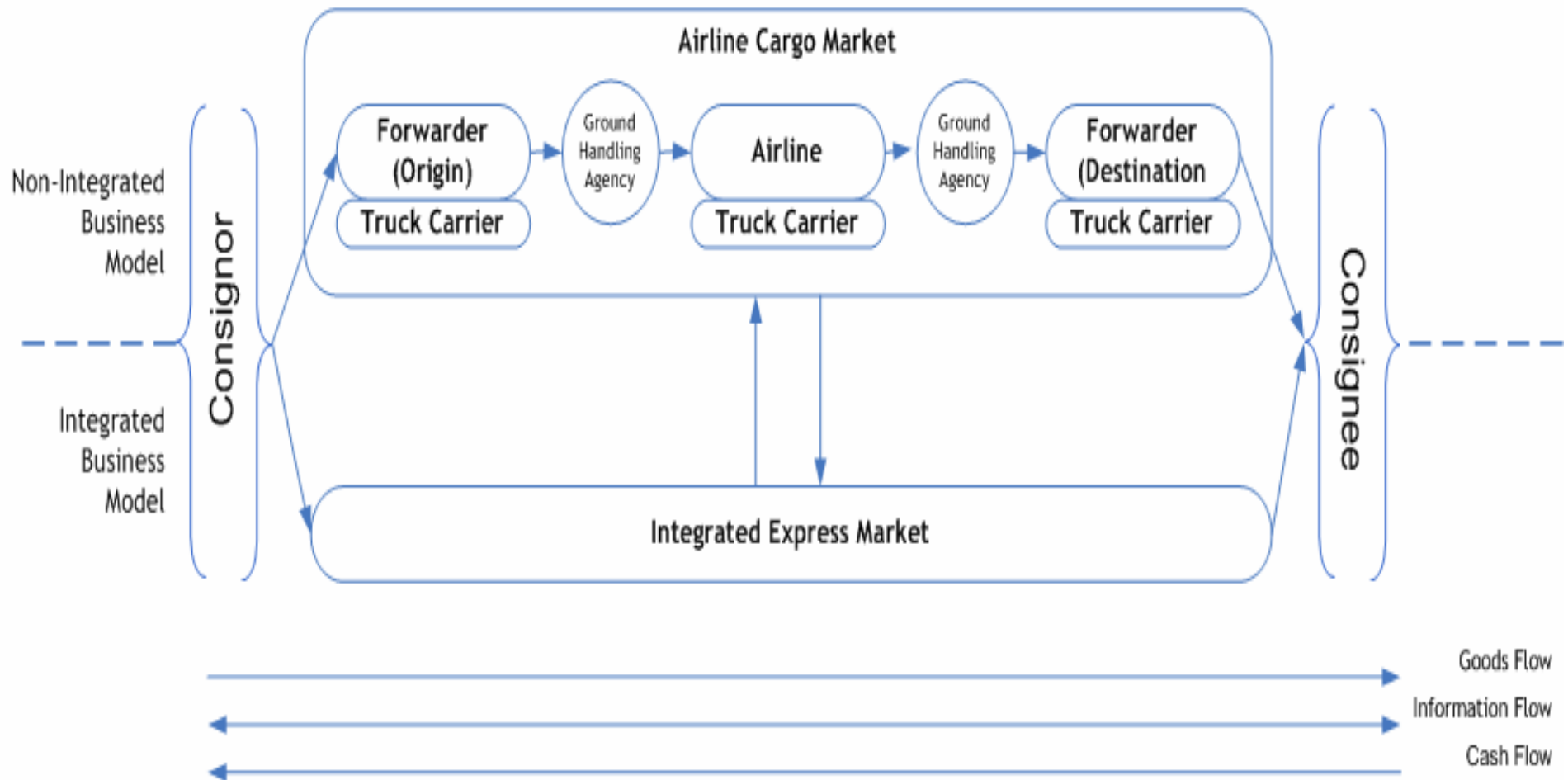


Historical Milestones

- Introduction of jet-powered, wide-body Aircraft in the '60s;
- Airline Deregulation in the US in the Mid '70s.

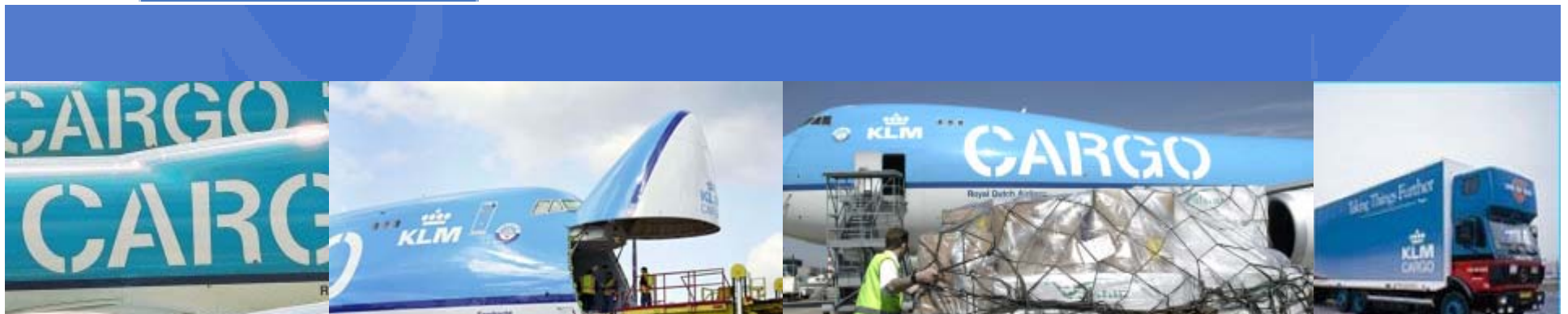
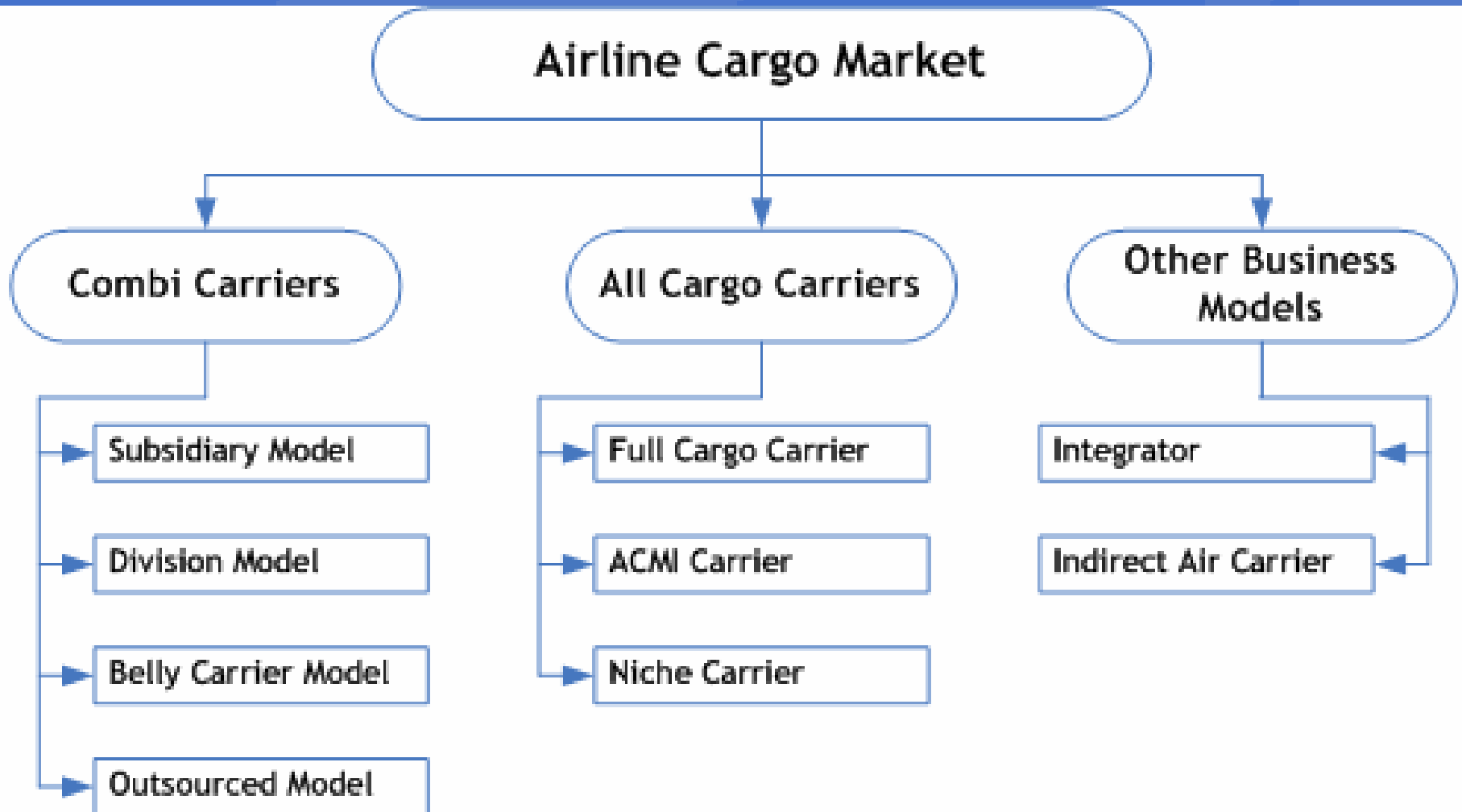


Air Cargo Supply Chain





Airline Cargo Market





Airline Cargo Market: Differences with Air Pax Market

- Consumer Market versus B2B Market;
- Active versus Passive;
- Cargo Doesn't Care About Plane Changes, Indirect Routings, Aircraft Aesthetics or an Attractive Airport;
- Physically Homogenous versus Heterogeneous;
- Planes, Networks & Schedules are Primarily Designed for Pax Business;
- Seasonal Aspect;
- Directional Imbalance;
- Daytime versus Night Time Operations.



Integrated Express Market

Integrated Express Market

Couriers

Classic Integrators

Super Integrators





Integrated Express Market II

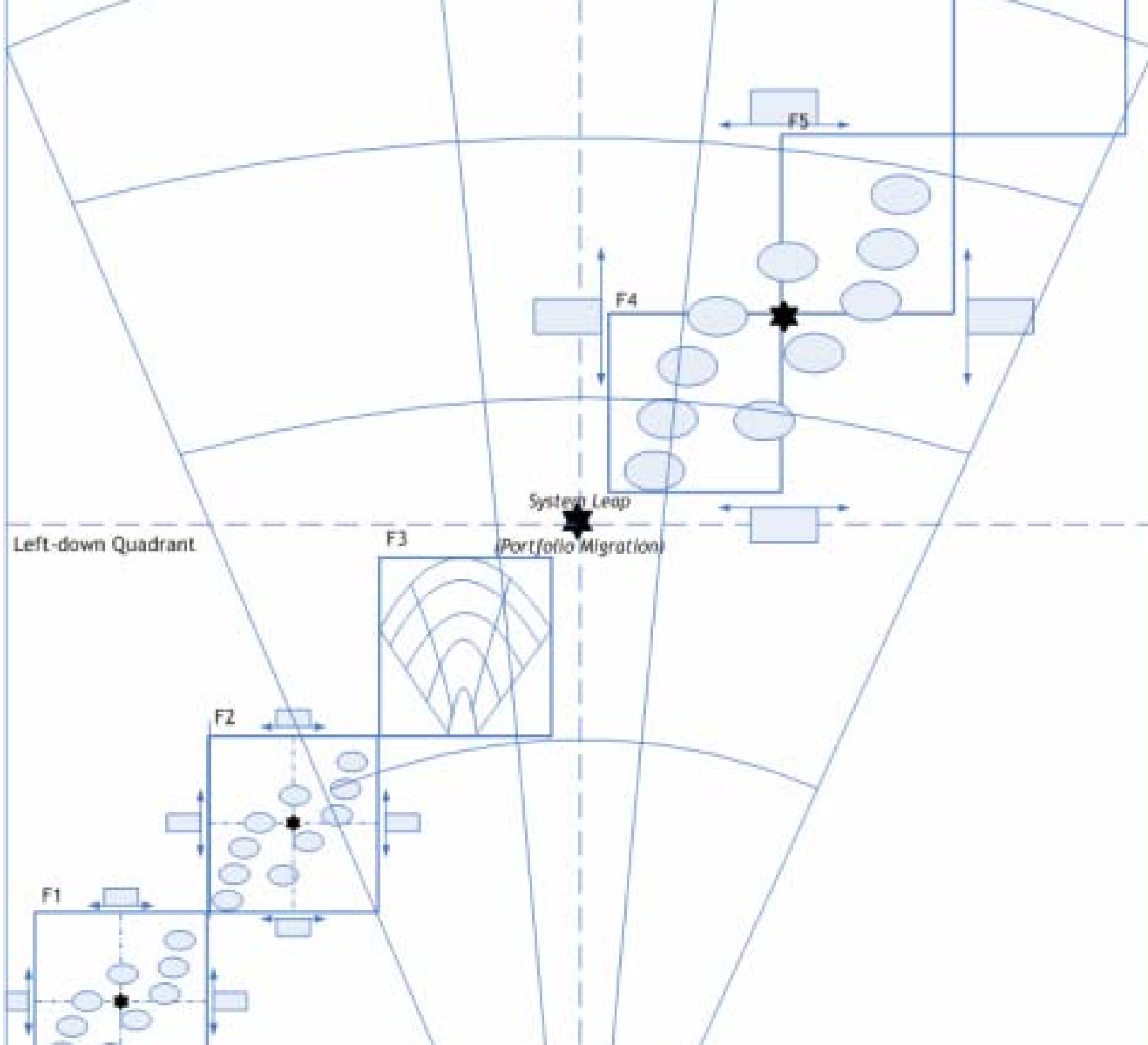
- Difference Couriers vs Integrators faded away in 80s;
- Classic Integrators: Traditional Air Express;
- ‘Super Integrators’: Business Portfolio Diversification of Classic Integrators;
- Four Major Players: FedEx, UPS, DHL, TNT
- Characteristics Classic Integrator: small parcels, high frequency, rigid time schedule, time-defined, door-to-door, value-added services (e.g. track & trace), tailor made solutions;
- Super Integrators: (3PL) Multi-Specialists in Transportation & Logistics Services.





Research Approach & Method

- Qualitative: Literature + 2 Case Studies (Expert Interviews);
- Well-known Management Models Like the BCG Matrix or Porter's Five Forces Framework;
- Strategic Planning Methodology Designed & Applied at KLM Royal Dutch Airlines;
- Methodology Structures Strategy Discussions but is no 'Question & Answer Machine';





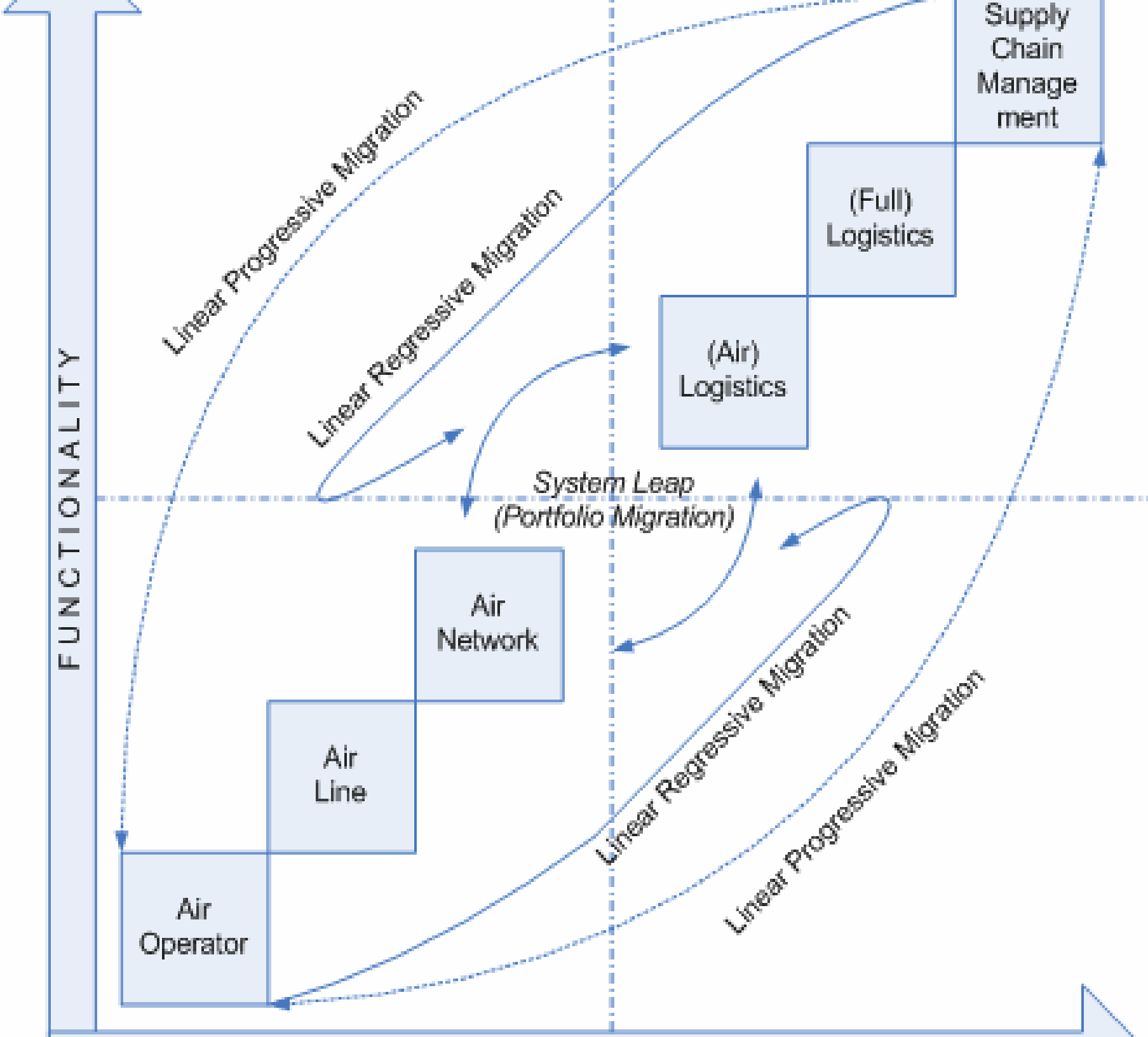
Strategic Planning Methodology KLM

- Three Interrelated Marketing Strategy Dimensions:
 - Business Positioning;
 - Customer Relationship Management;
 - Commercial Distribution.



Business Positioning

- Attempt to achieve a sustainable competitive advantage (Porter, 1996);
- Variety-based, Needs-based & Access-based positioning;
- Business Positioning Ladder.





Business Positioning Ladder II

- Strategic Expansion Paths;
- Increase in Added Value;
- Every Square Represents a Business Position;
- Each Value Migration is a Paradigm Shift;
- Redefinition of 5 Cs:
 - (1) Customer Definition,
 - (2) Competencies & Capabilities,
 - (3) Configuration,
 - (4) Capital Flows,
 - (5) Channel Conflict & Convergence
- Three Kinds of Migration;
- System Leap;
- Natural Migration versus Orchestrated Migration.



Business Positioning Ladder III

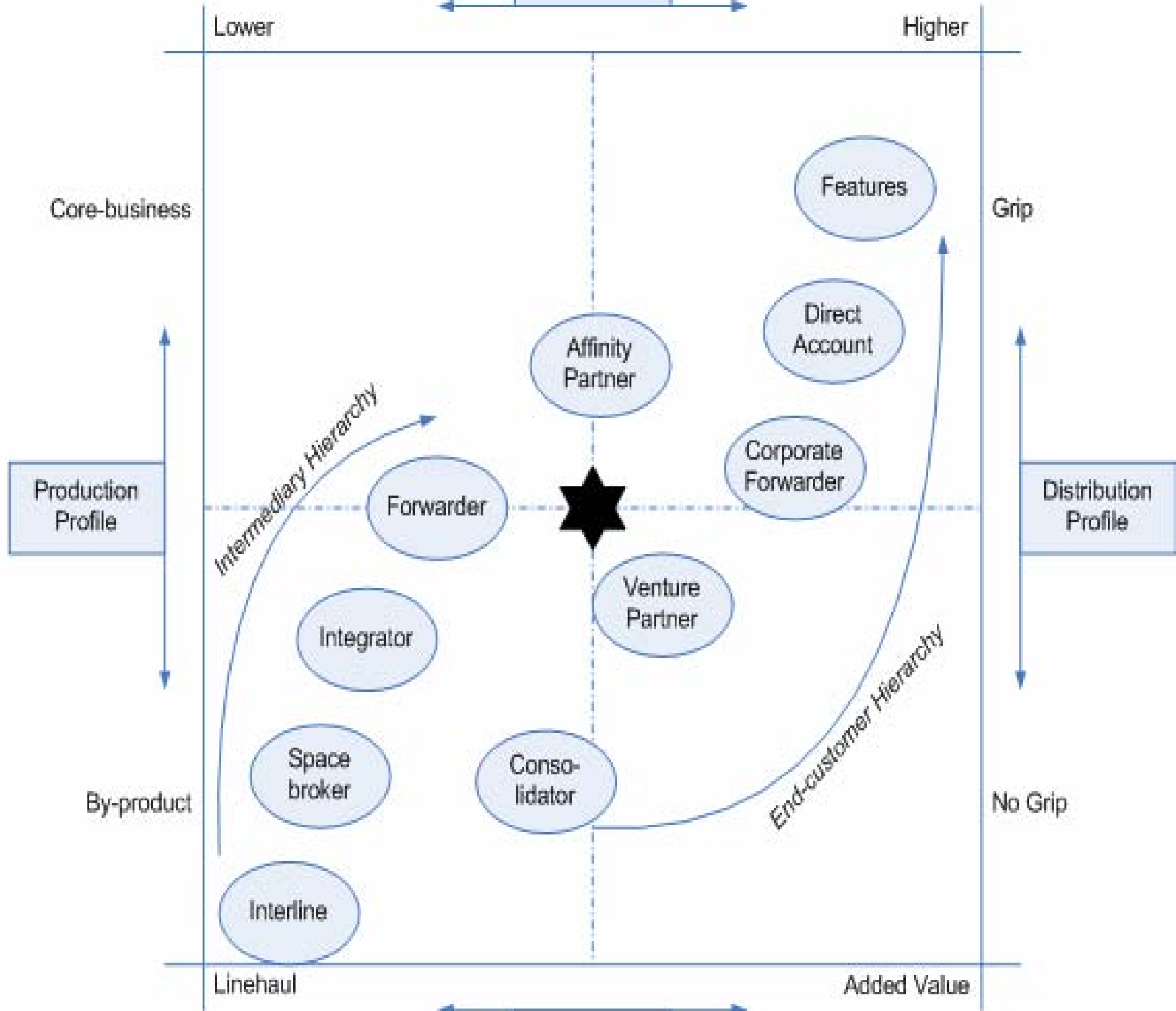
- **Air Operator:** Unscheduled Capacity Offering Only. Risk of Utilizing Asset (Aircraft) is transferred to the Market. Example: ACMI (Atlas Air);
- **Air Line:** Airside-to-Airside Services Based on a Flight Schedule;
- **Air Network:** Air Line Supplemented with Value-Adding Elements Like Transit Handling, Build-Up and Break-Down of Cargo, Status Information on Shipment Level, AWB Issuance, et cetera;
- **Air Logistics:** Asset-Light Business Added to Air Network;
- **Full Logistics:** Importance of Air Transport has Declined;
- **SCM:** Partly or Fully Integrated with Shipper's



Market Focusing: Customer Relationship Management

- Who is the Customer, Actually?
- Margin Profile;
- Service Profile;
- Production Profile;
- Distribution Profile;
- Intermediary Hierarchy (Indirect Approach);
- End-customer Hierarchy (Direct Approach);

→ #Missing# / #Blackhole in the Middle#





Market Focusing II

- Role Patterns of Market Participants are not Static;
- Direct Approach Makes Intermediary Hierarchy Redundant;
- Most Airlines in the Intermediary Hierarchy Regard Cargo as a Side Business;

- Right-up in the End-Customer Hierarchy:
 - Cargo is Core Business;
 - Higher Margin Profile, Higher 'Grip' on End-Customer Market;
 - Possible Market Leadership.

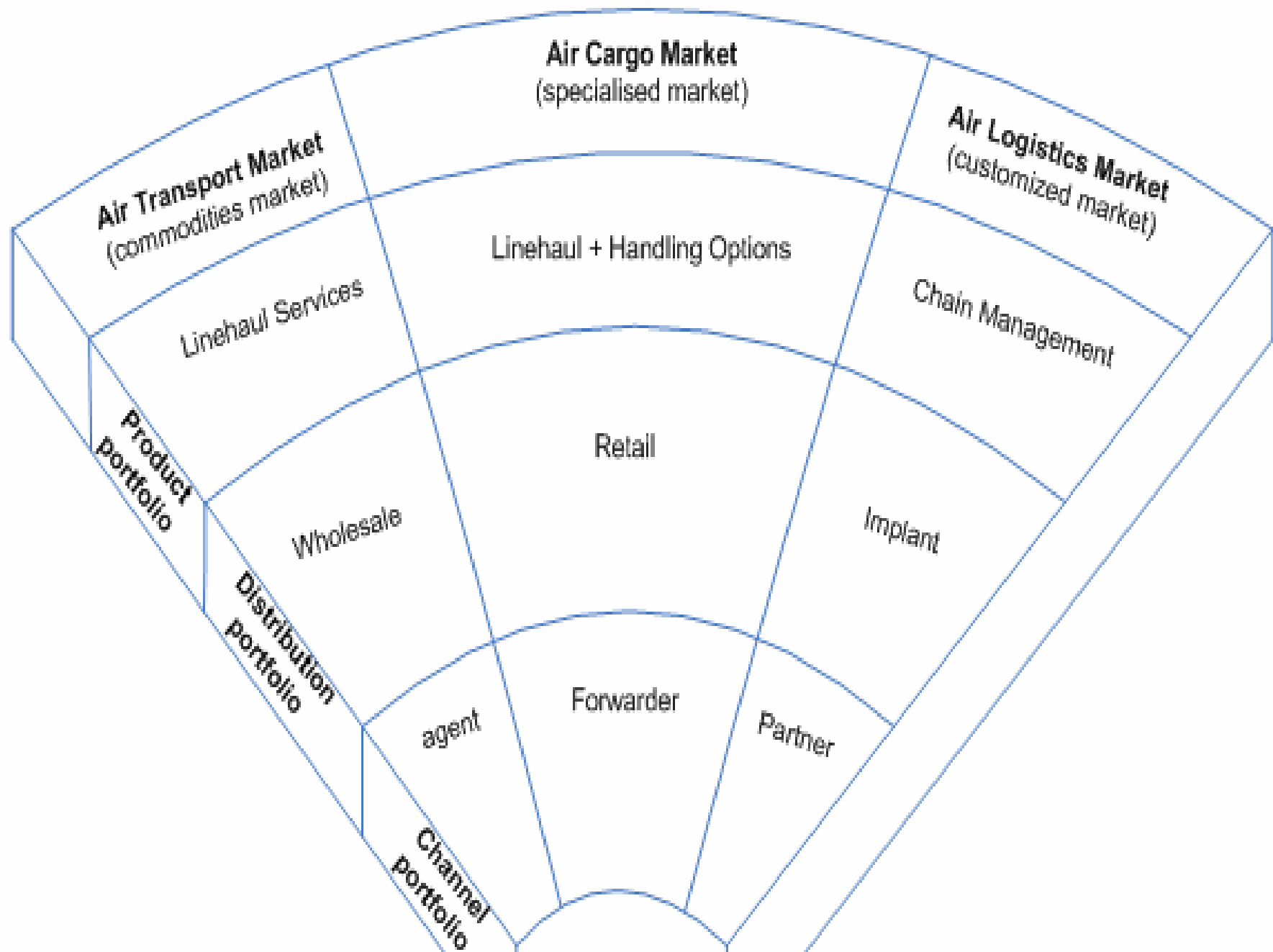


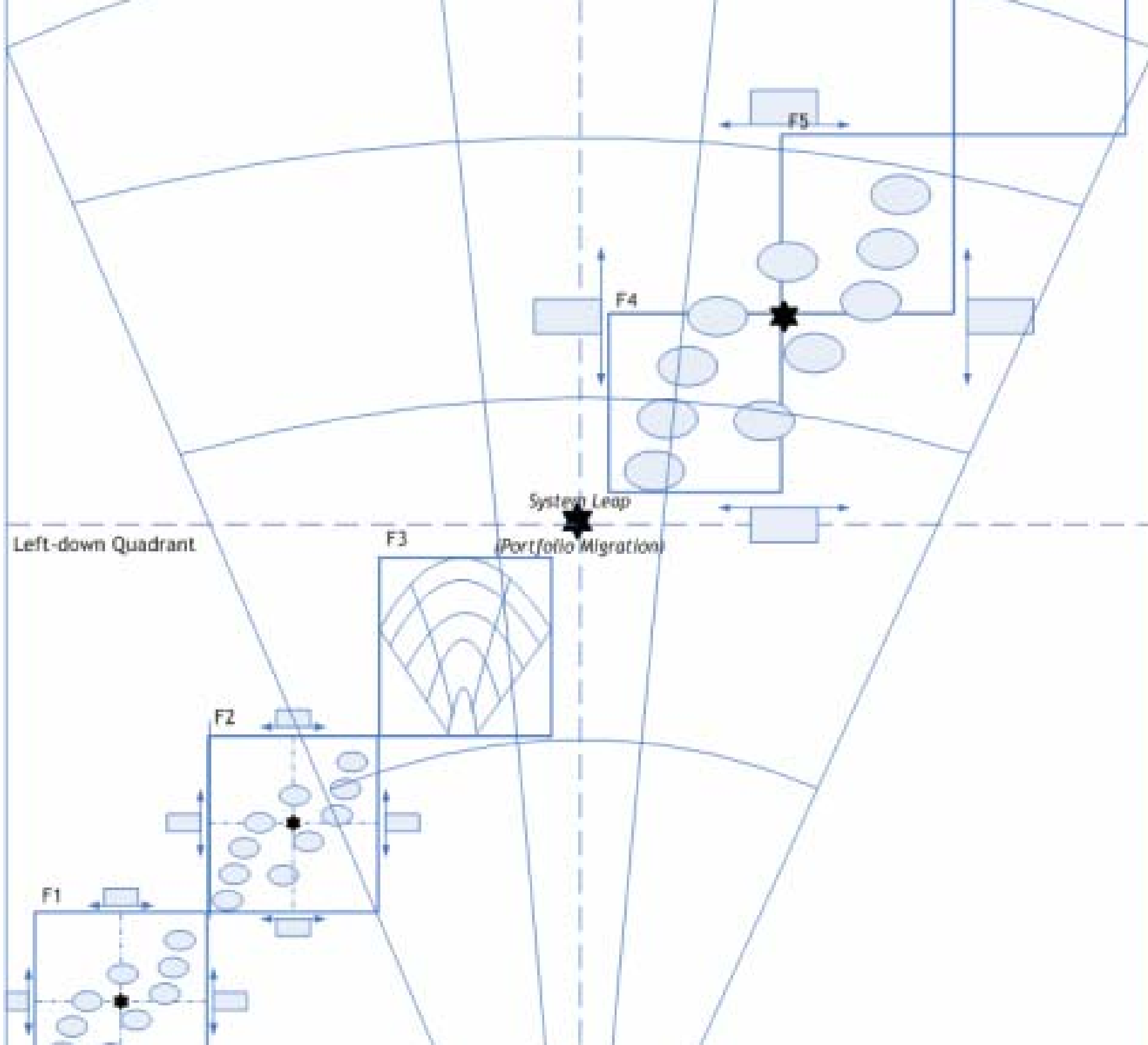
Market Positioning: Commercial Distribution

- Air Transport Market: Clearly Defined Services Portfolio;
- Air Cargo Market: Hybrid;
- Air Logistics Market: Tailor Made Customer Solutions;
- Product Portfolio;
- Distribution Portfolio;
- Channel Portfolio



Market Positioning Pie







Sum-up

- Methodology is Helpful in Framing and Simplifying a Complex Business Reality;
- The Models are Interrelated;
- Level of Abstractness Important:
 - Industry Level
 - Market Level
 - Company Level
 - Divisional Level
 - Business Unit Level
 - PMC Level



Conclusions

- Unfortunately, the Main Research Question Can not be Accepted or Rejected Right away;
- Integrated Express Players are More Solutions Oriented and Organized (Needs-Based Business Position), Focused on Market Penetration, the Interest of End-Customers and Brand Management with Less Assets;
- Airlines Prefer to Expand Their Scale Rather Than Scope. Airlines are Variety-Based Positioned as they Depend on Intermediaries on Areas as End-Customer Development, Fare Setting and Adapting Business to Shippers' Developments. Lower Market Dominance, Lower Margins.



Reflections

- Available Academic Literature on Air Cargo / Airline Strategy is Quite Scarce;
- Application of a Methodology that Lacks any Academic Backing -> Validity of the Method is not Questioned, but Taken for Granted;
- A 'How to Use Guideline' of the Methodology lacks -> It Seems Like a Brainstorm Tool;
- The Methodology is Subject to Debatable Assumptions;



Suggestions for Further Research

- A Quantification of Competitive Rivalry in Air Cargo;
- Research Focused on the Validity of the Methodology.



Questions?

Thank You For Your Attention!