

Airports Developing Air Services for Cargo versus Passenger Airlines

Over the years Air Service Development has developed into a valuable tool for airports to keep their fate into their own hands. By actively providing air service analyses to airlines, airports are able to expand their client and route portfolio. Besides actively targeting passenger airlines also cargo airlines are being targeted by airports. At the yearly held World Route Development Forum airlines are approached by airports in attempts to convince airlines of flying to their respective airports. This paper provides an overview of the differences in approaching cargo airlines versus passenger airlines. Besides, for sure, cargo plays a contributing role in the revenue generation of passenger airlines, once a passenger airline has decided to start operating a route. The majority of the information provided is from experience of the author, having done passenger and cargo air service development for airports, amongst others: Amsterdam, New Delhi and Cologne Bonn.

by: Floris de Haan

Markets

Within passenger airlines and airports markets are distinguished based on the reason of travel. Depending on whether passengers fly for business reasons, vacation or to visit family and friends there is a clear difference in the buying behavior of each passenger group. A tradeoff is made in terms of travel time, price, schedule, airline product, frequent flyer programs and more. In particular travel time, or circuitry becomes important when no direct connections are offered. For passenger airlines Quality Service Indices (QSI) calculate what share of traffic an airline can have, bearing in mind the competition that is offering the same connection between two cities, direct and with intermediate stops or transfers.

In cargo markets, the approach is slightly different. First of all, cargo typically needs onward transport to either a distribution center or a warehouse. Specifically in developed countries, like in North Western Europe, but also in the US and Japan, the road network is very well developed. Freight forwarders and trucking companies offer scheduled services to onward locations as far as 1500 km from an Airport. Still, about 80% of air cargo is delivered at destinations within a 500 km range from an airport, but it proves that many airports in North Western Europe are competing for the same cargo in their catchment area. Today half of the air cargo is being transported by a globally operating freight forwarding company. Usually freight forwarders decide about which airport to use based on cost, schedule and handling rather than being able to reach the final destination through one hub better than through another hub. Also high circuitry routes are seen often, as long as the Service Level Agreement (SLA) of the shipper is met.

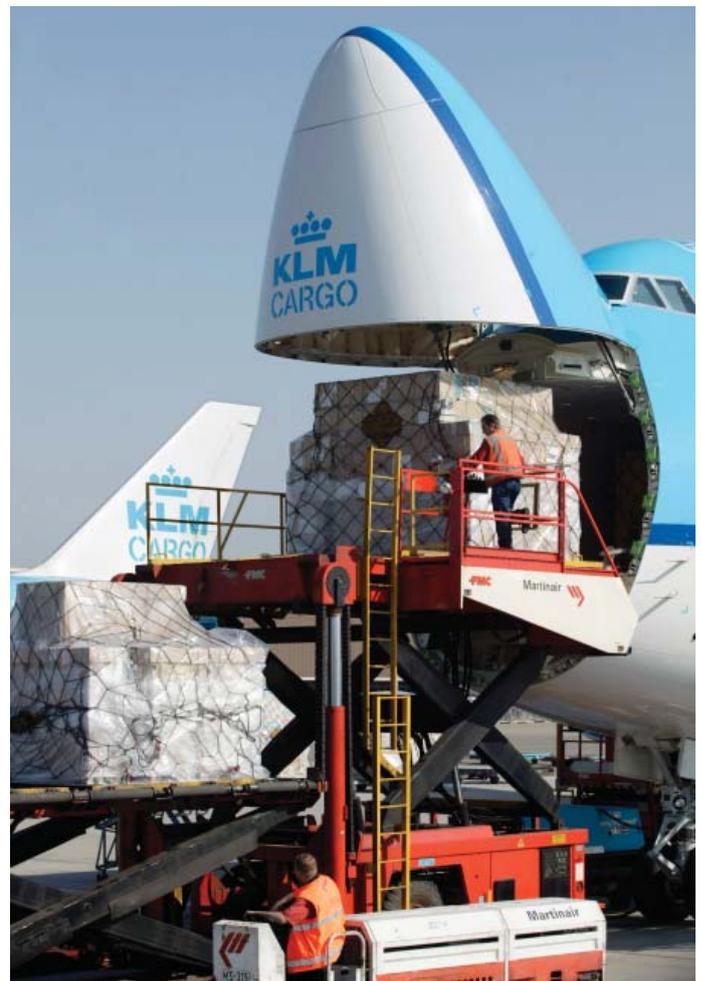


Photo 1: KLM Cargo operated by Martinair Cargo Boeing 747-400ERF at Amsterdam Airport Schiphol. Photo courtesy of KLM Cargo



Photo 2: Air cargo area at Amsterdam Airport Schiphol. Photo by Hubert Croes

Secondly cargo travels only one way, whereas most passengers do return to their origin. Airlines that fly from a cargo hub therefore need also return loads for their return flights. Passenger airlines can steer through capacity management in the balance between OD passengers that originate from the spoke city, passengers that originate from the hub and transfer passengers. In cargo, the flow is more straight forward, but at the same time requires more sales effort at the spokes of their network. Through General Sales Agents (GSA) and own sales staff, cargo airlines strive for an optimal outbound and inbound cargo balance. Airports where air cargo is available for the return flight of foreign carriers are thus attractive. This can be achieved by either production in the region of such airport or by a road feeder networks that provides the cargo through extensive trucking.

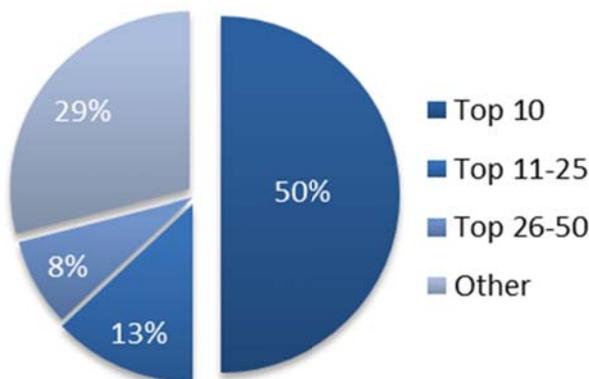
Thirdly it must be mentioned that handling air cargo is more attractive at a hub with more scale, compared to passengers. Specifically Low Cost Carriers have shown that flying at places with hardly any traffic can work because demand for such connection can be created. In cargo this mechanism of creating demand won't work. Air cargo will only fly if the goods have been produced first. And then still a tradeoff is made between other modes of transport, also for intercontinental cargo flows.

Scale, as well as directionality and catchment area cause air service development for cargo to be a different ball game from passenger air service development

Figure 1: Forwarder Structure

Top 10:

- DHL Global Forwarding
- DB Schenker
- Kuehne + Nagel
- Panalpina
- SDV International
- DSV International
- UTi International
- Expeditors
- Geodis Wilson
- UPS SCS



Source: Aviation Information Research & Consulting, www.aviainform.org

Differences in Cargo and Passenger Airlines Business Model

Mainstream passenger airlines do sell the majority of their capacity directly to customers, the passengers. Either through the internet or call centers, there is a direct relationship between customer and supplier. Only charter airlines are an exemption in which the tour operating company books blocks of seats that they can sell to their customers. In that respect charter airlines and cargo airlines look like each other. The direct relationship of mainstream passenger airlines between customer and supplier forces the airlines to have a value proposition that is tempting for numerous consumers in the market segments they want to serve. Passenger airlines lure passengers with a service concept amongst others frequent flyer programs and preferred seating opportunities.

Cargo is somewhat different. At the very beginning air cargo has been developed as a byproduct of passenger services. Flying empty bellies with suitcases only, was an opportunity for the airlines to earn ancillary revenues. Over the past years cargo has been growing at a higher pace than passenger business and therefore many airlines started operating full freighters after their bellies were filled up. At the same time freight forwarding companies gained bargaining power in the transport chain. Increasingly the larger shippers, such as high tech companies, started doing business with the forwarders instead of the airlines. The big advantage of forwarders is that they serve regions through more than 1 hub and therefore are able to negotiate on price. As long as Service Level Agreements are met, these shippers do not really care about the routing of their shipments. The cargo airlines became the 'trucking company through the air' while the shippers were talking to the forwarders. This influences Air Service Development heavily, since the forwarders now want a role in where their suppliers of air cargo space are flying to.

Differences are evident, but in the situation of cargo being carried in the bellies of passenger airplanes, both go hand in hand as well. Cargo can contribute to passenger revenues and make 'the coin flip to the right side'. Since margins are minimal, a few

Figure 2: Commercial parties involved in Transport Chain



percent of additional revenue can turn a route from loss into profit. Like air cargo transport started decades ago, cargo has become an ancillary revenue on a number of mainly intercontinental routes. For low cost carriers the operational complexity of cargo does not fit into their business models. Besides, trucking is often cheaper and as fast on the continental routes that low cost carriers serve.

Available Market Data

Part of convincing airlines in Air Service Development is a data analysis that shows the financial feasibility of a proposed route. This focuses on the revenue side of the equation, since airports have limited insight in the cost side of airlines they are targeting. Regarding routes for passenger airlines there is ample information available. Sources like ‘Airport IS’ (IATA) and MIDT provide good insight in the number of passengers that is currently travelling between two airports. If there is no direct connection, these sources tell via which connecting airport passengers are traveling. As described, so called QSI models can then provide a best estimate for a new route. In cargo there is limited data available. Cargo Air Service Development specialists can rely on two sources that both have their limitations. IATA provides data which comes from the Cargo Accounts Settlement System (CASS). This is flown cargo also referred to as traffic data. Alternatively there are various sources available that contain trade data from customs organizations or statistic agencies in various countries. In the CASS data only flown cargo is presented of those airlines that are IATA members. There is number of full

freighter operators that is not a member of IATA and therefore does not contribute to the data. Besides, goods that travel via other modes of transport are not in the data. Trade data on the other hand is often inconsistent. It contains import data from country A to B that do not match export data from country B to A. Besides in larger economic regions in Europe the port of entry is seen as the country that goods go to. So, for example, if Sony has a Distribution Centre in Luxemburg that will be reflected as if every citizen possesses 14 TV’s in Luxemburg. A lot of tailored adjustments need to be made in order to make data presentable for Air Service Development purposes.

Concluding

For Airports, Air Service Development is very different for cargo airlines than it is for passenger airlines. Apart from markets and business models that differ, also the data available for route analyses is limited in cargo. Cargo flies one way, passengers mostly return. Cargo does not complain with high circuitry routes, passengers do. Dynamics are different, but sophisticated cargo Air Service Development is the more challenging.

About the Author

Floris de Haan has more than a decade of experience in the aviation industry. His area of expertise is related to Airline Marketing and Revenue Management (both cargo and passengers segments, for airports as well as airlines). Floris de Haan has worked at, amongst others, KLM, where he was responsible for Revenue Management and Planning & Analysis, as well as Schiphol Group, where he was Director Cargo Marketing.



Photo 3: MD-11 Freighter at Cargo Platform. Photo courtesy of Lufihansa Cargo