



Logistics

Airfreight Grows Globally

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The global airfreight business is returning to the growth that sustained the industry before the bottom fell out during the dot-com bubble of 2000 and the impact of Sept. 11, 2001.

The watchword is no longer "west," but "global."

The global and domestic airfreight business is divided into several arenas. Integrated express carriers like **DHL**, FedEx, UPS and TNT own fleets of planes and offer services such as complex tracking of goods. The freight forwarders do not own planes and use both commercial carriers, like **Delta Air Lines** and **American Airlines**, and integrated carriers to transport their goods. They often have a niche business, such as transporting a particular commodity, operating a particular trade lane or working with a specific country given specialized services.

The drop in global air cargo that occurred in 2000 and 2001, according to **Bob Dole**, project director for the Air Cargo Management Group, was turned around "in 2004, with a 14% growth rate that later dropped to 3% in 2005. The expectation at this date is for a 7%-plus average increase over the next ten or so years. That means that air cargo will nearly double in volume by 2017." Both **Airbus'** and **Boeing's** cargo-business forecasts confirm this figure in general (for instance, the Airbus forecast sees a 5.9% increase from 2004 to 2023).

In the U.S., cargo is dominated by the big, integrated express companies that have managed to get a lock on 90% of all business. These are competing with the freight forwarders and with "less than truckload" (LTL) truckers who, within regional distances, feel they can compete with the big boys on cost and service.

But the real growth in air cargo is in international transportation and particularly the Asian trade, since U.S. domestic air cargo has been either flat or has seen growth in the 2% or 3% range over the past few years.

"The freight forwarders see good growth for their business," says Brandon Fried, executive director of the Airforwarders Association. His association includes freight forwarders like **SEKO** and its franchise partners. Fried says the members are ready, with sufficient capacity for the existing demand and for the forecasted increases in cargo traffic.

There are several trends: The big carriers are getting bigger, the Asian and European airlines are stressing cargo-carrying far more than U.S. airlines are, and the stronger freight forwarders are fast extending their business to the international scene.

The air freight business requires complex support networks and the business acumen to match. Being an airfreight carrier means more than having cargo space on a plane; the idea is to fill the plane by any legitimate source, as no carrier wants to transport air. This most often means having distribution centers, offices and hubs, which serve to expedite transportation services, located as close to the market demands as possible. It requires smart backup of all of the hardware as well as integration with Web-based networks. Today, these requirements have become standard for both the integrated carriers that inaugurated them and for the individual freight forwarders.

UPS is an integrated airfreight express carrier that operates worldwide. This business direction is "the result of several strategic decisions by UPS, including building a global network, investing in technology and acquiring companies with freight operations and expertise," says **Brad Fitzgerald**, global strategy manager for UPS supply chain solutions.

UPS created supply chain solutions and then aggressively added warehouse and distribution capabilities, freight transportation and forwarding expertise. Its goal is to manage the flow of goods from a customer's suppliers to end-consumers--and all points in between.

The coordination of such a comprehensive world service and infrastructure depends on a strong and expansive application of technology. "We tie our supply chain visibility tools, such as Flex Global View and Quantum View Manage, directly to our supply chain management capabilities," says Fitzgerald.

This set of moves and applications has made it possible for UPS to manage its entire supply chain, which includes transportation of freight (bulk or palletized goods) and packages, freight forwarding, customs brokering, logistics, distribution and international trade management.

In the process of managing cross-border shipping, Fitzgerald suggests that "there is a bewildering array of rules issued by more than 200 sovereign nations. These rules are in a constant state of change."

UPS offers a service referred to as "the synchronized supply chain," which Fitzgerald defines succinctly as "getting the right product to the right place at the right time and in the right condition."

Smaller airfreight forwarders may come to the airfreight business with a somewhat different mix. For instance SEKO, as a freight forwarder, is built on an entrepreneurial base (rather than through a wholly owned home office and satellites), and U.S. franchise partners own equity in SEKO. Therefore, it operates as a group of integrated franchises. At first, these were national, but as **Steven Goldberg**, the executive vice president of operations and COO of SEKO, says, "We had to take this same model globally, so what we have is strategic partners and not agents. The entrepreneur abroad will eventually have a piece of the action that is based upon the volume of business that is done."

Goldberg insists that freight forwarders like SEKO "have the best of both worlds"--using commercial air carriers combined with a trucking network. "But we can also use an integrated carrier like FedEx or UPS," he says, noting that, since they now also fly their own fleet of planes, they want to fill them from whatever source they can. "If we use them, we may only use their air service while we deliver to the plane and pick up, using our own services for the rest."

SEKO offers all services of a freight forwarder--import, export, customs, ocean services--and this is all controlled in house. SEKO can deal with truck to ship to truck to plane in any combination. "If a customer wants to move a shipment out of Beijing and does not know where to start, we can take care of the whole thing for them," notes Goldberg.

This service extends to warehousing. For instance, SEKO's Indianapolis operation is 350,000 square feet and can do pick up and pack work. Others, like their Louisville, Ky., warehouse facility, may have only 100,000 square feet, and still others have basically just an airfreight office.

"We work with some medical-equipment businesses and, for them, we warehouse and provide machines as and when needed. This can include specialized delivery and set up at the facility. When we pick up, we take it back; we may sterilize the equipment and repack it," says Goldberg.

Although delivery by air started simply, over the years it has become an extended supply chain business. This appears to be true for both integrated carriers like UPS and freight forwarders such as SEKO. The goal is to provide greater and better service to the customer and to the customer's customer.