

VOLATILITY

INTO



OPPORTUNITY

Many international businesses are finding themselves hampered by economic and geopolitical uncertainty, but the outsize sector is continuing to grow, writes Yvonne Mulder

Trade wars, government shutdowns, economic crises and fluctuating oil prices increasingly seem to be part of daily reality for many manufacturers and exporters. The uncertainty makes even short-term planning difficult for companies both big and small.

But for one sector, this volatility can be an opportunity. “Typically, turmoil means airfreight is required even more,” says Robert van de Weg, vice president sales & marketing, Volga-Dnepr Group (VDG).

“For example, right now we see a strong growth in our Southeast Asia business due to a looming trade conflict between the US and China.

“While trade wars and world economic conditions are beyond our control, we adapt to the changes and cater to the needs of our customers worldwide.

“Even oil price fluctuations do not cause too much of a problem. It is something we have got used to throughout our years of operations.

“We have managed to build long-term and trustworthy relations with our customers (including from the oil and gas sectors) and rely on their support.”

He says both AirBridgeCargo (ABC), part of VDG, and strategic partner CargoLogicAir (CLA) have seen good growth in outsize and

heavy cargo.

“Both companies achieved a vivid upsurge in volumes of oversized and heavy shipments, with the requests coming from various industries — machinery, oil and gas, power generation and aerospace.”

He attributes the increase partly to ensuring the quality of service: “We have strengthened our three-party relations — carrier-freight forwarder-OEM — and realigned our communications channels. This has facilitated an increase of aerospace volumes of more than 30%, including the number of jet engines.”

CLA chief executive David Kerr adds: “Geopolitical factors are hard to predict and overcome. For example, the UK’s exit from the European Union (EU) remains unclear and may have a significant influence on the air cargo sector.

“Being the only UK maindeck cargo carrier, CLA has grown significantly in the last year, adding scale in both network and fleet to meet the demand of its customers. In 2019, the company is set to continue its fleet expansion and new service capabilities.”

The largest outsize shipments market for both ABC and CLA is Europe-Asia which is up 20% over the prior year, while US to Europe “tipped over 50%, mainly driven by increased aerospace traffic”.

SIGNS OF RECOVERY

Chris Mitchell, vice president, global specialised solutions, Crane Worldwide Logistics, says uncertainty does have an impact in that customers are reluctant to commit to new projects.

“People are looking for a period of stability rather than higher prices in order to make investment decisions.

“With a limited recovery in oil and gas prices and a bit more stability, we do see some growth in this sector, traditionally our core business.

“There are signs that things are beginning to ease and there is more discussion about new capital projects.”

He says that in order to help provide more certainty about the logistics costs for customers “we put in as much detail as we can for clients on longer term projects so that costing is realistic, and there are contingencies included to try and take account of changing global circumstances”.

The slowing of the oil and gas market in recent years has helped push Crane Worldwide to diversify into new markets.

“There are lots of opportunities in power and infrastructure projects and we have also seen growth in US Government chartering in both military and aid projects. This has grown very quickly in the last year or two.”

Mitchell says that the growth in outsize and project airfreight volumes is due partly to the company’s decision to set up charter desks and a time-critical air desk in recent years.

“We are seeing the payback from these investments. We see a connection between our high-touch, high-service business model and critical airfreight for oversize cargo.

“We believe in managing these engagements as a project. Shippers want an end-to-end solution and we aim to provide this. We see solid growth continuing in this sector in the near- to mid-term.”

For Graham Witton, managing director, Antonov Airlines, the uncertainties created by trade wars and Brexit mean that “people are looking at doing something different with their supply chains. They may look to the skies as that can be much simpler”.

He does admit that airfreight comes at a higher cost, but says it can be worth it in the end.

The aerospace sector is a case in point. With more aircraft being built than ever before, with components delivered from all around the world on a just-in-time basis, any delays in the process can be hugely expensive.

“If there is a problem, it does not just affect that one plane but all the others behind it on the production line, so it is worth using us to solve the problem. And with components larger than they used to be, you need the larger freighters to deliver them.”

Antonov, in contrast to Volga-Dnepr, its ex-partner in the Ruslan Airlines joint venture, has declared that it is not aiming to sell direct to shippers.

“We are trying to repeat traditional decision-making processes in the industry,” explains Witton. “There is a role for the shipper, the freight forwarder and the carrier. The forwarders are a very large part of our customer base and we are happy to work with them.

“If shippers come to us directly or the market

Antonov Airlines: mining units in Latin America

is so mature that the only way they work is direct with carriers, then that is a different story.”

He says that customers are always conscious of costs, and in these uncertain times, maybe even more than they were before.

And now they have more of a choice because previously the two biggest players worked in co-operation.

But that does not mean it is always a buyer's market. For instance, after a cyclone or other natural disaster, capacity is sucked from the marketplace and the regular customers will feel the effects of this.

Price also depends on the availability of aircraft and where they need to come from.

“One aim this year is to get even more efficient, with more cargo-loaded flying and less empty ferrying between contracts.”

Witton says that for customers prepared to commit in advance: “We can take some more risk with how much it will cost to place the aircraft in position before and after, as we have more time to plan and to promote that capacity as available at that time in the local market.”

PEOPLE OVER SOFTWARE

One thing Witton will not be relying on for planning is a software package.

“If you are doing the same thing over and over and/or had 100 planes you would be able to develop software to model what we do. But that is not how it works.

“We have a core fleet of seven An-124s, we

know our customer base and different people look after different regions. There is a lot of knowledge in our people's heads and it is easier for us to make predictions ourselves and find people who might have cargo for the empty leg.”

Of course, customers are always looking to cut costs, so it is important that they understand that specialised services require higher levels of input by the logistics providers.

Van de Weg says: “One of the main challenges is understanding that outsize shipments are complex project cargo and they need time to be handled properly by experienced and qualified cargo experts to make sure this highly-sensitive and expensive equipment is delivered intact.

“It is essential for the carrier to have a dedicated team of qualified engineers responsible for confirmation of safe transportation, able to carry out loadability checks and advise customers on the best options for cargo packaging, acceptance and readiness.”

As a forwarder, Crane Worldwide also finds that its customers are very cost-conscious.

“Shippers are aggressively pursuing cost savings and, as a high-touch, high-focus provider, we have to find the balance,” says Mitchell.

“They want to see upfront cost reductions but still have the service levels. In this procurement environment we need to make sure we communicate the delivered value over the project lifecycle and show it is not just about upfront costs.”

This argument will no doubt become more difficult to make with the emergence of online

‘Typically, turmoil means airfreight is required even more’ Robert van de Weg, Volga-Dnepr Group

platforms for out-of-gauge shipments, although Crane Worldwide is actively participating on those platforms, mostly at the less complex end of shipments.

“Will it commoditise our services?” asks Mitchell. “In our business that is challenging, but shippers have the incentive to go online. That is definitely the direction of travel.

“We already use platforms in Crane Worldwide for general cargo and are now exploring how it works with outsize cargo.

“We want to be in the forefront of the industry. In future, that could include asset owners as well on the platforms — you cannot rule it out.”

Van der Weg believes that all customers with outsize air cargo shipments value customised logistics solutions. “With this in mind, we are building a dedicated XL stations network with qualified and experienced personnel and essential loading equipment on-site.

“To ramp up our services we also offer a one-stop-shop solution for customers with access to the whole fleet of the Volga-Dnepr Group, which saves request processing time and guarantees the most cost-effective solution.” ♦



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