

Peak season: Expectations versus reality says Volga-Dnepr

The peak season this year, still mid-way through at the time of writing, is being driven not by any major flush of absolute volumes, but by shipper expectations as a result of coming off an easy summer where capacity was fast and loose, according to Volga-Dnepr Group's Robert van de Weg. By Donald Urquhart.

At the end of October, van de Weg who recently assumed a new position within the Volga-Dnepr Group as its senior vice president of sales & marketing said he was expecting a very robust peak season unfolding, something that is more or less unfolding although many in the industry complain it has not lived up to the level they expected. But interestingly enough, the somewhat muted aspect of it bears out observations made by van de Weg as to what was fueling the peak this year.

"In my opinion there are two things about the peak. First there's always a certain upsurge in traffic just because the shopping season is here, but the key thing making the peak season good, or not good from the perspective of a carrier is the aspect of 'expectations versus reality'," he said.

"It's all about preparation, so as a carrier like AirBridgeCargo we don't know how the volume is it going to be versus last year, but it could very well be that there's only a modest increase and volumes versus last year. But the point is, if our customers are not preparing themselves for this – in other words they are not already pre-stocking by sending the quantities by ship, or booking charter flights if they really think demand is going to be strong, as they did in 2014 – then they will be caught off guard."

So the key according to van de Weg is not the absolute volumes, but the the expectations of shippers. "Because in the summer it was so easy to move cargo for our customers due to so much over-capacity, that people get into this mindset where they don't even think about preparing for the peak season because there is so much buffer – I think that's the key thing.

"It's a bit of the market being put on the wrong foot and then 'boom' the typical volume increase creates a peak rush," he says, adding that the carriers that have capacity in the market benefit. And then there is the a bit of the 'Hanjin-effect' he notes, in reference to the bankruptcy of Korea's Hanjin Shipping. "It's not major, but it's definitely contributed to the



Robert van de Weg

current situation especially in the US market," he says adding that Europe was impacted to some extent as well due to the automotive sector.

Van de Weg adds that the Volga-Dnepr charter side has also been picking up which he describes as "more a case of some of the stars aligning properly," than anything else. "We got quite a bit of aerospace and quite a few automotive charter projects that just happened to pop-up," he says.

"But currently we see very strong pick up on both businesses and that's very good to see."

The peak, whether robust or only a blip, will in any case be a welcome respite for air cargo carriers around the globe, particularly after the first eight months of the year which as van de Weg, put it, "have been pretty rough".

The market over this period, he noted was quite similar for both the scheduled business, as well as the charter business. On the charter side there was less activity than in prior years primarily because of the lack of activity in the oil and gas sector. And on the scheduled AirBridgeCargo side of the business it wasn't so much less volumes – they were in fact up 26 per cent year-on-year – but the very low yields (in September the lowest in four years according to Drewry Consulting), a result of what van de Weg understatedly describes as the "supply and demand conditions in the market".

The overcapacity bugbear

Indeed, while overcapacity is a key problem van de Weg acknowledges, he highlights that even with the flood of belly capacity at least 50 per cent of all the world's airfreight still moves on freighters. "A lot of the belly capacity that's being added you can call it wasted capacity, because it flies on routes where it doesn't mean anything to cargo customers. Therefore, belly capacity load factors are continuously dropping because the passenger markets do not necessarily correlate with the cargo markets.

"If all this belly growth were to be in China, Bangladesh, Vietnam and on the transpacific, then the impact on the freighters would be much harder, but it so happens that a lot of this belly capacity is in markets where there is little or no cargo demand," he says.

There are some markets that are directly impacted he notes, particularly China to Europe because of the growing passenger numbers out of China and of course India to Europe is "completely gone, completely spoiled as a cargo market." But in the balance the China market remains a maindeck market he adds.

"It's a classic example of a market that was a freighter market in the '90s because there was more cargo than passengers, but it's turned completely around and freighters are basically unsustainable in that market," he says.

But for van de Weg, it's not the flood of belly capacity that is the biggest threat, but freighters themselves.

Freighters not bellies

"I think the biggest competition for freighters is not the belly, but the freighter itself." He goes on to explain that there is a very large overhang of capacity that was delivered around the boom in the late 1990's and early 2000's. These aircraft are still around because of relatively low fuel prices, so the MD-11's, B747 – 400s, the first of which were



delivered around 1993, are still around and still flying, he notes. And for an operator it's still better to get some contribution from these aircraft than to park them, so this is a big over-hang of capacity.

He also notes there has been relatively little addition to the global freighter fleet in recent years, other than a handful of B777Fs and B747-8Fs. And if you look at the curve is relatively Little addition in recent years. If you look at this whole waiver planes it was delivered between 98 and 2005—two polar Atlas, China Airlines café the Cargolux ones SQ and only on.

“The question then is when are these older freighters going to go out of the market because the whole situation could reverse and you could very well make a scenario of a shortage of long-haul freighter capacity between 2020 to 2025.

“The key question then is how to survive in between, because of course this overcapacity and the bellies don't help and this overhang of old capacity doesn't help either, whereas the market is kind of flattish so the key is to survive this era,” van de Weg says.

Thriving not surviving

And make no mistake, the Volga-Dnepr Group aims to do more than simply survive this period, it aims to thrive in it. “We aim to do this by keep focusing on her job and to to excel at what we do,” he says. “A lot of our competitors are already bailing out of it and no longer investing and no longer taking it as a

positive business. It's our core business so we'll continue investing in it as we have in ABC for instance and we have invested a lot in on-time performance. We've invested in our fleet, sales people, systems and functions that we can then relate to our customers,” like the global accounts function he adds.

“We've Invested in these basic functions to enable us to do our basic job well and we think we've gone quite far with that, but now it's time for the next step.” And that step is to further specialize the Group's product offering such as its pharmaceutical and outsize products.

“We are specialising in specific verticals like pharma, outsize and charters – these are all product-driven verticals. We're also focusing on customer groups which require specific attention, which is a different kind of vertical because they're not so much defined by what you produce, but more defined by specific characteristics of customers.” Here the Group is looking at sectors like aerospace, oil and gas, government, humanitarian, energy and heavy machinery.

Crucially this is a group-wide effort, the groundwork for which was laid earlier this year.

The recent IATA Center of Excellence for Independent Validators (CEIV) Pharma certification was a key step in that direction on the pharmaceutical product level.

“The CEIV is the basic requirement to prove to our customers that we're capable of dealing with it and based on this we will still do very strong sales

and commercial efforts to convince customers to use us, because contrary to general cargo it takes longer to convince the pharma shippers of your capabilities.” And he adds, these customers are more resistant to change if they have a working solution already.

“So the sales cycle is much longer than in general cargo where in many categories of general cargo the switching it's fairly easy to do, but in pharma not so,” van de Weg adds. Pharma currently comprises about 2-3 per cent of ABC's business in terms of revenue, but the Group aims to “at least double it within the next 12 months”.

Speaking of specialty products, e-commerce is currently the hot topic in the industry as various components of the air cargo supply chain assess what it means for their business and how they can take a piece of this every growing pie. The Volga-Dnepr Group similarly is looking at how it can possibly develop products for its ABC division catering to this rapidly evolving market segment.

“We are still undecided on this and we are talking to key players in this industry as we try to determine our position on how best to serve this market,” van de Weg says. He notes there are a lot of players looking at the potential now and how they can participate and then there are the e-commerce platforms like Alibaba, or Amazon who are looking to do some of the complete chain by themselves.

“So it's quite a turbulent situation and we are looking at our role, but clearly we currently involved in the basic carriage of the e-commerce goods airport-to-airport particularly between China and Russia, but also China to Europe. But in terms of taking another step with partners in doing customs clearance and final mile delivery and really offering it as an integrated product, we've not yet decided on that, but we're looking at it. ✦