15 October 2020

Air Cargo E-Commerce

Today’s session will begin shortly
15 October 2020

Air Cargo E-Commerce

Welcome
Microphones have been muted

Please submit your questions through the Question box and send to Everyone

The webinar is being recorded and will be made available afterwards, including the PPT slides.
Participants are cautioned that any discussion regarding matters such as fares, charges, division or sharing of traffic or revenues, or concerning any other competitively sensitive topics outside the scope of the agenda is strictly prohibited.

As a result, questions pertaining to individual policies or commercial decisions and/or being subject to bilateral commercial discussions between airlines and their suppliers or customers will not be answered.
Agenda

- Welcome Address
- E-Commerce growth & COVID-19 impact
- Supply chain shifts & air cargo gaps
- 3 winning strategies
- Panel and Q&A with our experts
- Wrap up

Biographies are available on the IATA Website
Welcome Address

Brendan Sullivan
Head, Cargo Operations
& E-Commerce
IATA
E-Commerce growth & COVID-19 impact

Maciej Starzyk
Senior Manager, Strategy
PwC
Seizing the E-Commerce Air Cargo Opportunity

IATA,
Maciej Starzyk (PwC)
October 2020
Air cargo is a vital means of transport for cross-border B2C e-Commerce, moving some > 80% (according to ICAO)
The e-Commerce industry has grown globally and its further growth is subject to COVID-19 pandemic impacts

**Value of e-Commerce in goods in $T**

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
<th>CAGR</th>
<th>2015-2019 Situation</th>
<th>2025 Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>0.96</td>
<td>20.1%</td>
<td>Average annual growth rates &gt; 20%</td>
<td>Pre-COVID-19 pandemic forecasts at 14.2% CAGR, but total e-Commerce may see a boost due to distancing requirements (visible in courier company performance)</td>
</tr>
<tr>
<td>2019</td>
<td>2.00</td>
<td>??%</td>
<td>Share of cross-border e-Commerce in total e-Commerce in goods grew from 7% to 11%</td>
<td></td>
</tr>
</tbody>
</table>

Source: PwC analysis based on Euromonitor International data; values at 2019 end-of-year exchange rates; rounded values
Along largest and fastest-growing markets for e-commerce, emerging markets were expected to start contributing to growth.
Volumes carried by mail and express players were estimated conservatively at FTK 20 billions, but complete mass carried may be larger, with further growth constrained by capacity.

**World e-Commerce air cargo estimate (domestic and international) in FTK billions**

2015-2019 situation:

- Base market estimates (orange) are conservative values excluding e-Commerce shipped as freight.
- Total flows composed of postal, express, freight e-commerce plus unmeasured future-domestic volumes (shipped as freight).
- Share in total FTK 2019: 8.2% to 15.1%.
- Part of PPE shipments during pandemic also account for e-Commerce.
- Largest routes: inside APAC, Asia-USA, EU-Asia.

Outlook to 2025:

- Formerly forecasted CAGRs at ~10% currently unrealistic due to air cargo capacity constraints.

Source: PwC analysis based on Euromonitor International data, interviews, global air cargo flows data.
4 distinct air cargo logistics models function on the market, depending on level of owned vs. outsourced capability and the air dispatch/consolidation profile (single parcels vs. freight):

**Model 1:** Owned and fully dedicated air transport capabilities

**Model 2:** Air freight shippers

**Model 3:** Hybrid models (freight and parcel)

**Model 4:** Air parcel shippers (traditional model)
COVID-19 pandemic is changing the ways e-Commerce and transport companies supporting air flows operate

COVID-19 – potential impacts on all e-Commerce logistics models

**Labor availability**

1. Shift towards more separated/distanced operations - higher automation
2. Uncertainty
3. Peaks in e-commerce
4. Increase in demand for labor with advanced tech skills

**Transport capacities**

1. Shift in category mix, growth in demand for online grocery and base means of living, PPE, potential recovery in electronics, fashion, others
2. Restricted capacities in air cargo (due to grounding of passenger planes)
3. Uncertainty and cost pressure causing shift to road and rail

**Fulfilment capabilities**

1. Need for security of supply chains – fulfillment spreading geographically, located closer to recipients
2. Distancing in fulfillment as a new consumer requirement
3. Higher levels of digitalization across the value chain, allowing integration of track & trace services
Airlines may need to respond to the ways in which e-commerce companies are addressing key gaps in supply chains based on e-Commerce air cargo

### Gaps

- Unstandardized services & pricing leading to inflated service prices, consumer confusion
- High international rates
- Lack of products tailored for e-commerce increasing cost and shipping time
- Insufficient service levels in fulfillment
- Low visibility of status for CEP and e-Commerce businesses
- Slow pricing processes, reduced rate competition
- Inflated costs of forwarding due to excessive labor
- Poor visibility to consumers, disconnections in track & trace mechanisms and reverse logistics

### How e-Commerce players may respond

- Overcoming border blocks with speed & convenience at the side of shipper processes
- Utilizing rates comparison platforms and mechanisms such as e.g. IATA TACT platform and IATA Net Rates
- Integrating services into emerging digitalized pricing and forwarding services enabling faster and more accurate rates reconciliation & ordering
- E-commerce players developing own fulfillment and logistics capabilities and airlines designing products dedicated for e-commerce, taking into account the inbound and outbound shipping profiles and process integrations of such centers
- Adoption of digital integrations with regards to reporting and track & trace emulation, data flows, including eAWB
Thank you

Prepared by: Julian Brown, Radosław Małkiewicz, Hanna Olszewska, Iryna Kyshko, Jakub Bojanowski

Supervision: Serge Hanssens, Partner, Alexandre Amard, Director, Maciej Starzyk, Vice-Director, Grzegorz Urban, Director

PwC 2020
With the kind support of IATA, E-Commerce and Cargo Operations Team, Economics Team and others
Supply chain shifts & air cargo gaps

Sebastian Blümmert
Head of Operations & IT
heyworld
Covid-19 & Cross-Border eCommerce
Challenges & Opportunities

Sebastian Blümmert, Head of Operations & IT
IATA Cargo Webinar
About heyworld

Subsidiary of Lufthansa Cargo

Specialist for eCommerce Logistics

Fully Digital & Modular

First Mile
Customized Handling
Air Freight
Customs
Last Mile
The Challenges Summarised

- Volatile Schedules
- Capacity Constraints
- Cost
Capacity as a finite good

Speed is (not) everything

The value of resilience

Value for money
The Importance of Data Highlighted

- Data is a powerful tool to cope in challenging times
  - Forecasting
  - Irreg anticipation and management

- Even small steps yield big results

- Shippers more willing to share – are you ready?
Summary

- Value of Logistics
- Diversification of Logistics
  - Service Levels
  - Sourcing
- The time to use data is now
Thank You!

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3 winning strategies

Dr. Ludwig Hausmann
Partner
McKinsey & Co.
Winning strategies in eCommerce for air cargo

Dr. Ludwig Hausmann, Partner, McKinsey

15 October 2020
E-commerce has moved 10 years ahead in just 90 days

Weekly online orders increased up to 200% YoY during lockdown in Spain, Italy and UK

Amazon revenue for the quarter ending June 30, 2020 was up 40% YoY

~15-35% growth in consumers who purchase online for most categories post-COVID-19. Especially, over-the-counter medicine, household supplies and food delivery will grow.

Source: Bank of America; Forrester Analytics; ShawSpring Research; US Department of Commerce; McKinsey analysis
Cross-border has been outgrowing domestic e-commerce for years – 2020 could be a reversal of this trend

Historical growth of cross-border e-commerce of ~25-30% annually from 2015-19 expected to decelerate to ~5-10% in 2020

International e-commerce shippers suffering from shortage of air cargo capacity that declined by >20% in 2020 YTD

Resulting price increases of 3x and cancelled belly capacity have led e-commerce shippers to explore alternative transport mode (e.g. expedited LCL, rail freight)
Three winning formulas in cross-border e-commerce & air cargo

Success criteria

A: Dedicated and guaranteed capacity

B: Trade lane / regional focus

C: Excellence in data management

Rationale

UPU channel will only recover at low growth rates as volumes shift to other, more reliable channels

Complexity of international deliveries and diversity of customer landscape requires clear focus to enable fast, reliable delivery service

Transparency of international deliveries is key requirement – solving various data breakpoints and integrating various systems becomes table stakes
Post-COVID-19 Outlook

Classic postal/UPU volumes have dropped immediately by up to 60% due to significant halt of volumes from Asia

UPU channel will only recover at low growth rates as volumes shift to other channels

- Reduced air mail volumes due to belly shortage are only gradually recovering
- Asian e-commerce giants increase shipment via non-air i.e., via the One-Belt-One-Road (Ocean and Road freight) and a warehouse-to-warehouse model
- General increase in domestic e-commerce to reduce overall demand for international shipments

Pre-COVID-19 B2C shipment volumes, in percent

<table>
<thead>
<tr>
<th>Total</th>
<th>100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air</td>
<td></td>
</tr>
<tr>
<td>Postals / UPU</td>
<td>~70%</td>
</tr>
<tr>
<td>(via airlines)</td>
<td></td>
</tr>
<tr>
<td>CEPs, forwarders, airlines with own channels</td>
<td>~10%</td>
</tr>
<tr>
<td>Express</td>
<td>~5%</td>
</tr>
<tr>
<td>(via integrators)</td>
<td></td>
</tr>
<tr>
<td>Non-air</td>
<td></td>
</tr>
<tr>
<td>Road and sea</td>
<td>~10%</td>
</tr>
</tbody>
</table>

Pre-COVID-19 Trends

Pre-COVID-19 majority of international volumes (~70%) passed through the UPU channel of postal companies (letters and small parcels)

Competitors of postal incumbents grew alternative channels and were growing shares in air, road and sea

European Union announced to introduce VAT on all products, also on previously exempt products

Source: McKinsey analysis; expert interviews
B: Azul's cargo unit has launched a B2C e-commerce shipping product with a clear trade lane focus

Azul's e-commerce offering

- Azul launched 'Azul Box' in May 2018 to deliver small parcels to 3,500 cities in Brazil and abroad using the belly capacity of its 800 daily flights.
- Since then it has leased two B737s freighters "to support the rapid growth of its cargo business unit".
- Azul pulled out of a commercial agreement with Correios in early 2019, an agreement initially developed in 2017 to create a jointly-owned integrated logistics company.
- Azul's cargo business' revenue grew by 57% in 2018 and thus the company is in a good position to enter more favorable commercial agreements.
- E-commerce was by far the fastest source of revenue growth soaring 314% over the previous year.
- Azul recently entered an agreement with Mercado Libre, Latam's largest e-commerce company, and expanded their Azul Box service to China.

How does Azul Box work?

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Source: Factiva, Reuters, Press, Company website

McKinsey & Company
C: A transparent and integrated cross-border e-commerce delivery service needs to solve various breakpoints across providers today

- **CM and payments**
- **Customs clearance/support**
- **Seamless integration with last-mile delivery companies**

**Processes**:
- E-commerce shippers
- Warehouses
- First/mid-mile
- Airport
- Customs
- Airline
- Customs
- Airport
- First/mid-mile
- Warehouse
- Last mile
- Customer
- Returns

**Additional Services**:
- Packaging/labeling
- Consolidation
- Capacity status
- Reverse logistics/complaint management
- End-to-end shipment visibility
Panel Discussion
Q&A with our experts

Moderator:
Brendan Sullivan
Head, Cargo Operations & E-Commerce
IATA

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Senior Manager, Strategy
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Dr. Ludwig Hausmann
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Wrap Up

Brendan Sullivan
Head, Cargo Operations & E-Commerce
IATA
Thank you

- Please visit [iata.org/events](https://iata.org/events) for the upcoming webinars
- Please visit [iata.org/cargo](https://iata.org/cargo) for all COVID-19 resources
- Please visit [iata.org/ecommerce](https://iata.org/ecommerce) for articles and insights
- Contact us at [cargo@iata.org](mailto:cargo@iata.org)