

IATA CARGO WEBINARS

The background image shows an airport cargo loading area. A white cargo truck is parked on the left, with its rear door open. A yellow cargo loader is positioned in the center, and a large cargo plane is visible in the background. The scene is dimly lit, suggesting dusk or dawn.

15 October 2020

Air Cargo E-Commerce

Today's session will begin shortly

IATA CARGO WEBINARS

The background image shows an airport cargo loading area. A white cargo truck is parked on the left, with its rear door open. A yellow cargo loader is positioned in the center, and a person is standing next to it. To the right, another cargo truck is visible. In the background, the tail section of a large white cargo plane is visible. The scene is dimly lit, suggesting dusk or dawn.

15 October 2020

Air Cargo E-Commerce

Welcome

IATA CARGO WEBINARS

Microphones have been muted



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



Exit



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



DRAFT

Seizing the E-Commerce Air Cargo Opportunity



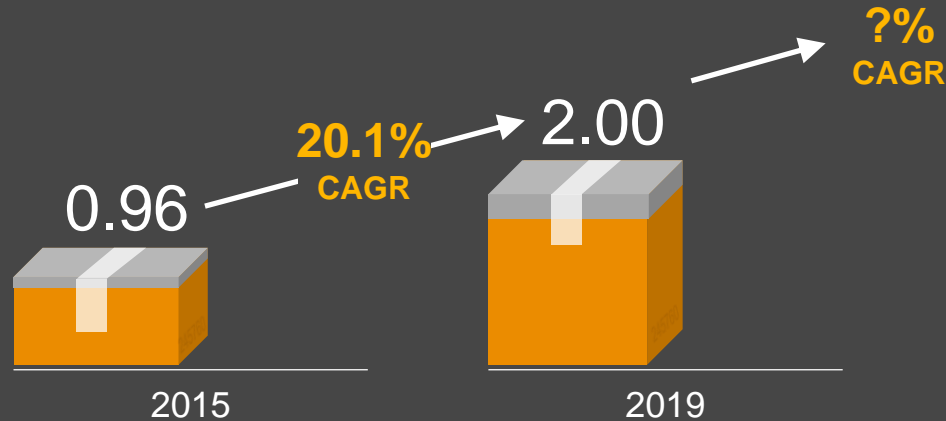
IATA,
Maciej Starzyk (PwC)
October 2020

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



 x-Border  Domestic

Source: PwC analysis based on Euromonitor International data; values at 2019 end-of-year exchange rates; rounded values

2015-2019 situation:

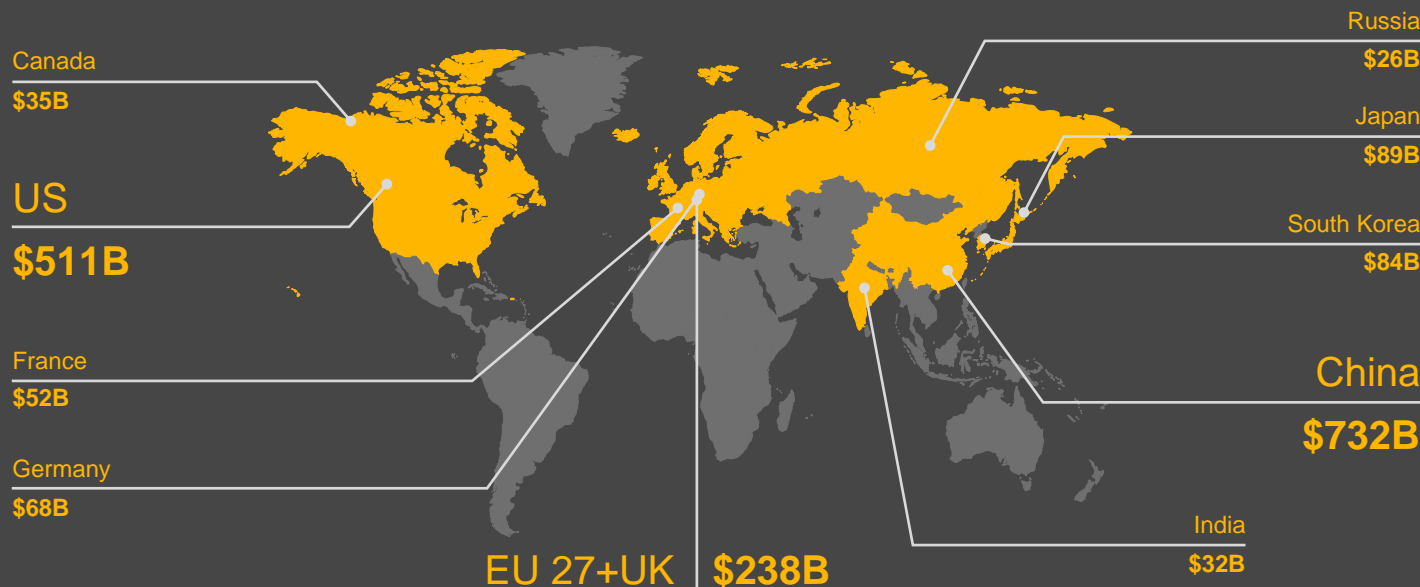
- Average annual growth rates > 20%
- Share of cross-border e-Commerce in total e-Commerce in goods grew from 7% to 11%

Outlook to 2025:

- 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)

Along largest and fastest-growing markets for e-commerce, emerging markets were expected to start contributing to growth

Absolute e-Commerce market values – 2019



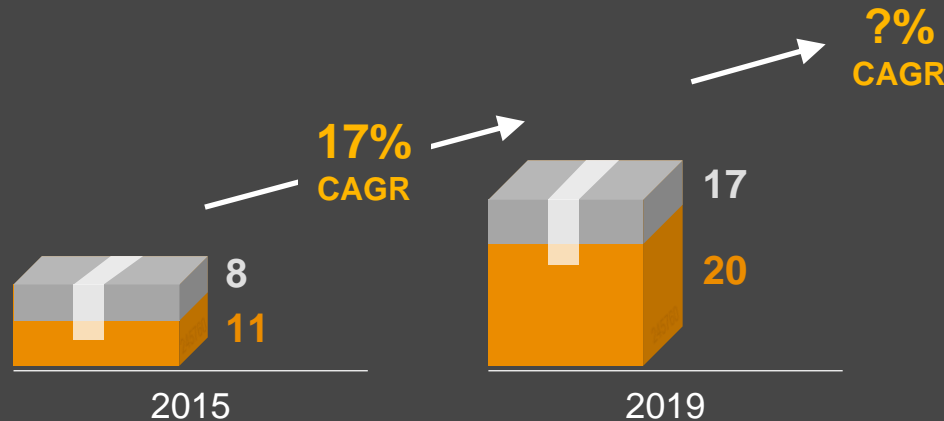
Example EMs with double-digit e-Commerce growth forecasts past 2019:



- Russia
- Philippines
- Thailand
- Saudi Arabia
- Brazil
- Turkey
- Mexico
- India

Source: PwC analysis based on Euromonitor International data

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



 Conservative estimate  Potential totals

Source: PwC analysis based on Euromonitor International data, interviews, global air cargo flows data

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**

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

Fulfillment 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

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PwC 2020

With the kind support of IATA, E-Commerce and Cargo Operations Team, Economics Team and others

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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

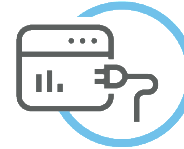




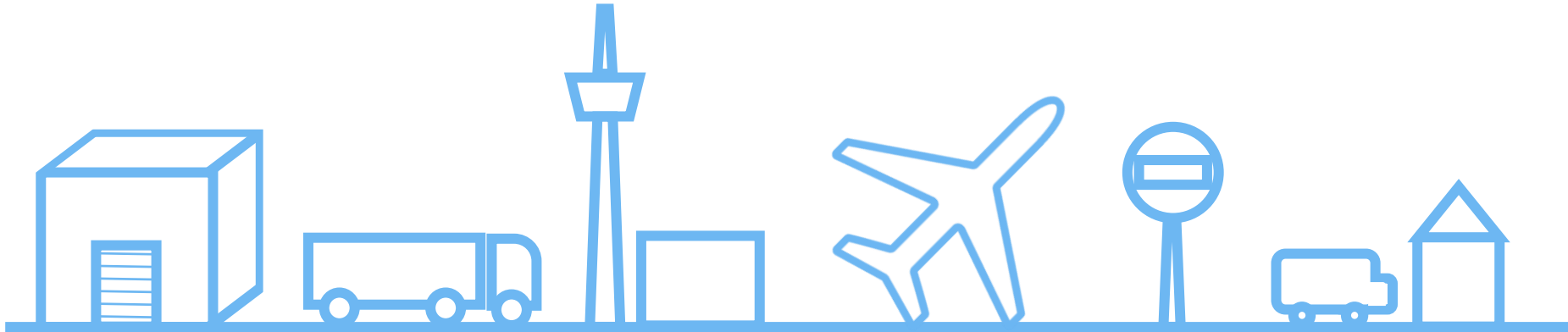
Subsidiary of
Lufthansa Cargo



Specialist for
eCommerce
Logistics



Fully Digital &
Modular



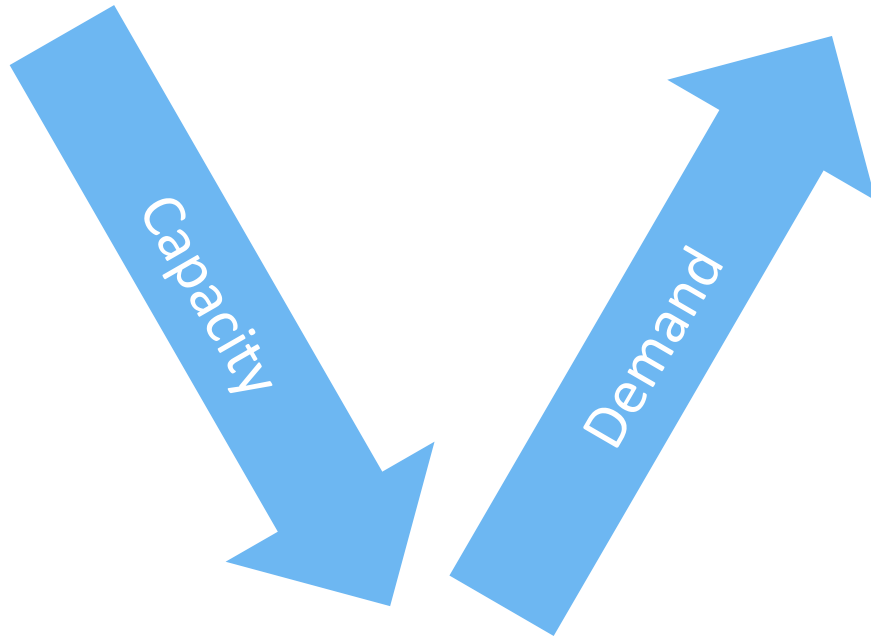
First Mile

Customized
Handling

Air Freight

Customs

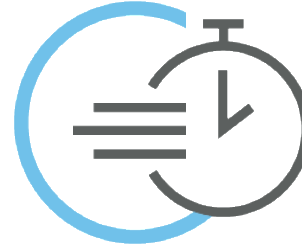
Last Mile



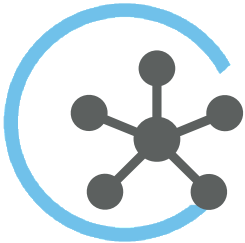
- Volatile Schedules
- Capacity Constraints
- Cost



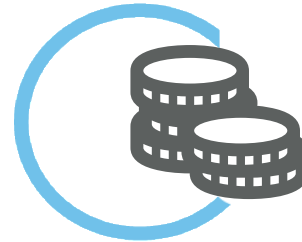
Capacity as a
finite good



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?



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

Thank You!

Sebastian Blümmert

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3 winning strategies

Dr. Ludwig Hausmann
Partner
McKinsey & Co.



Winning strategies in eCommerce for air cargo

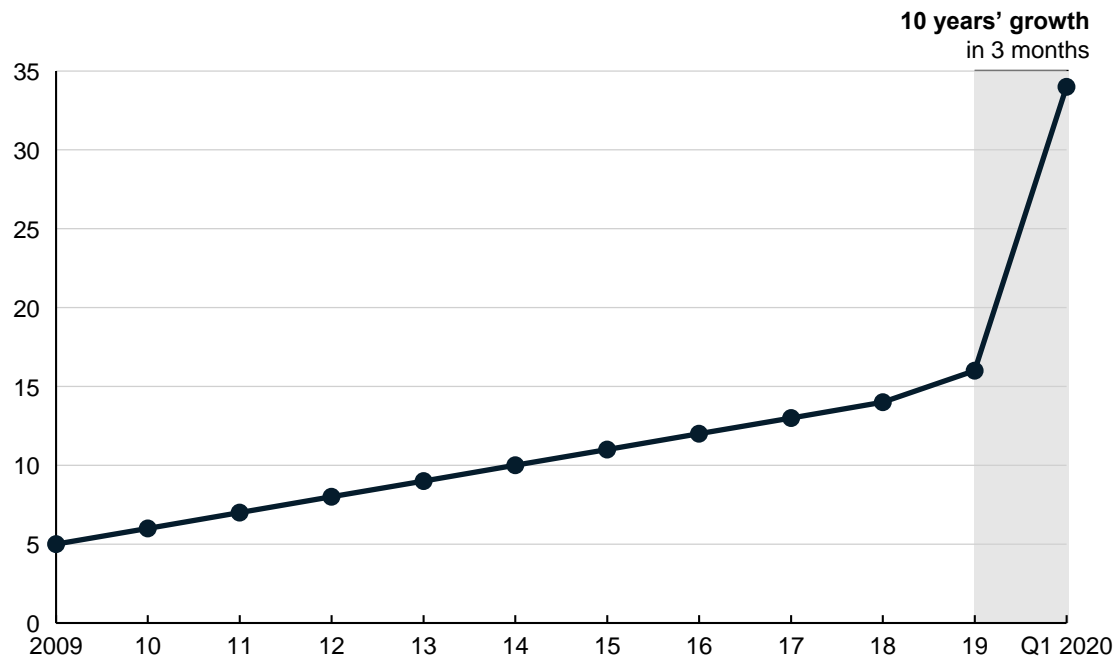
Dr. Ludwig Hausmann, Partner, McKinsey

15 October 2020



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

US e-commerce penetration, percent



Source: Bank of America; Forrester Analytics; ShawSpring Research; US Department of Commerce; McKinsey analysis

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

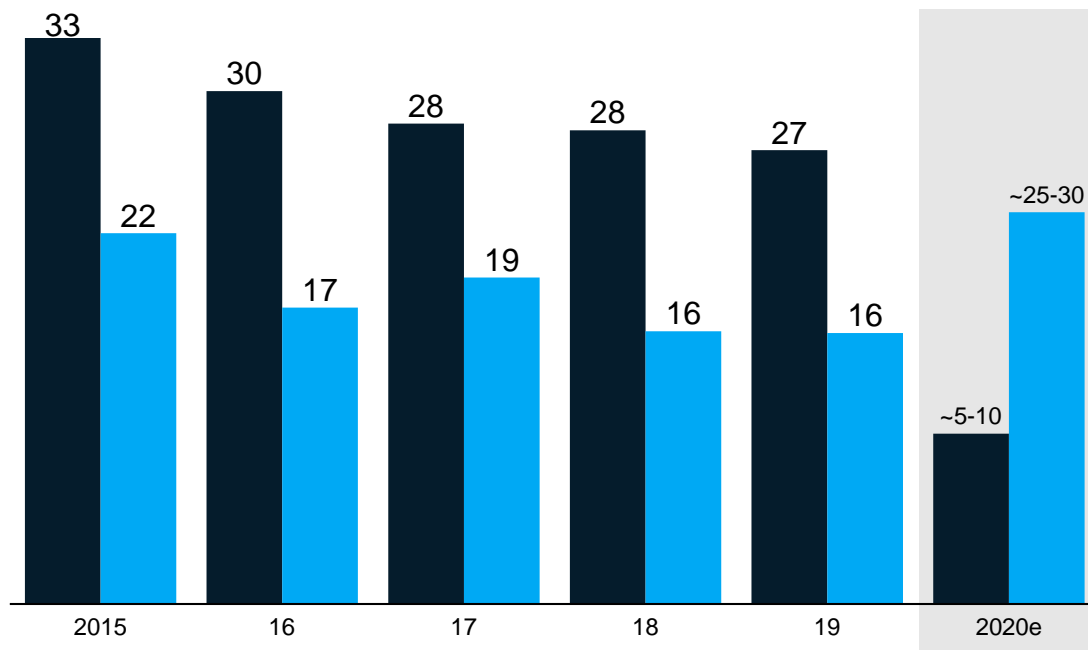
Amazon revenue for the quarter ending June 30, 2020 was up **40% YoY**

~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

Cross-border has been outgrowing domestic e-commerce for years – 2020 could be a reversal of this trend

■ Cross-border ■ Domestic

Annual growth of cross-border and domestic e-commerce, percent



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

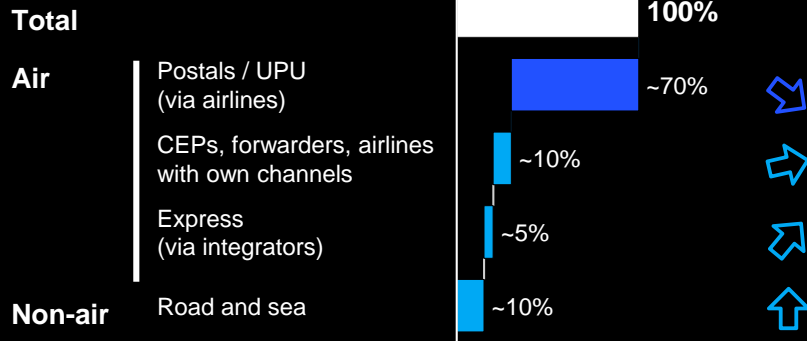
Complexity of international deliveries and diversity of customer landscape requires clear focus to enable fast, reliable delivery service

Transparency of international deliveries is key requirement – solving various data breakpoints and integrating various systems becomes table stakes

A: UPU volumes have declined in light of COVID-19

⇒ Growth outlook

Pre-COVID-19 B2C shipment volumes, in percent



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

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

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 abroad¹ utilizing 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

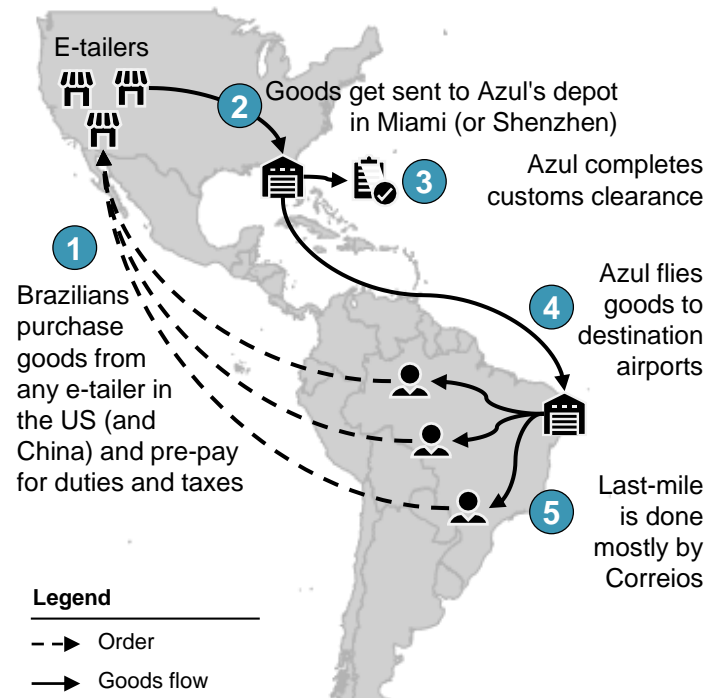


We not only handle airport-to-airport, **but also the final-mile**, so we can **provide a full solution**, [...] For this, we are **mainly competing with the large integrators such as DHL and FedEx**.

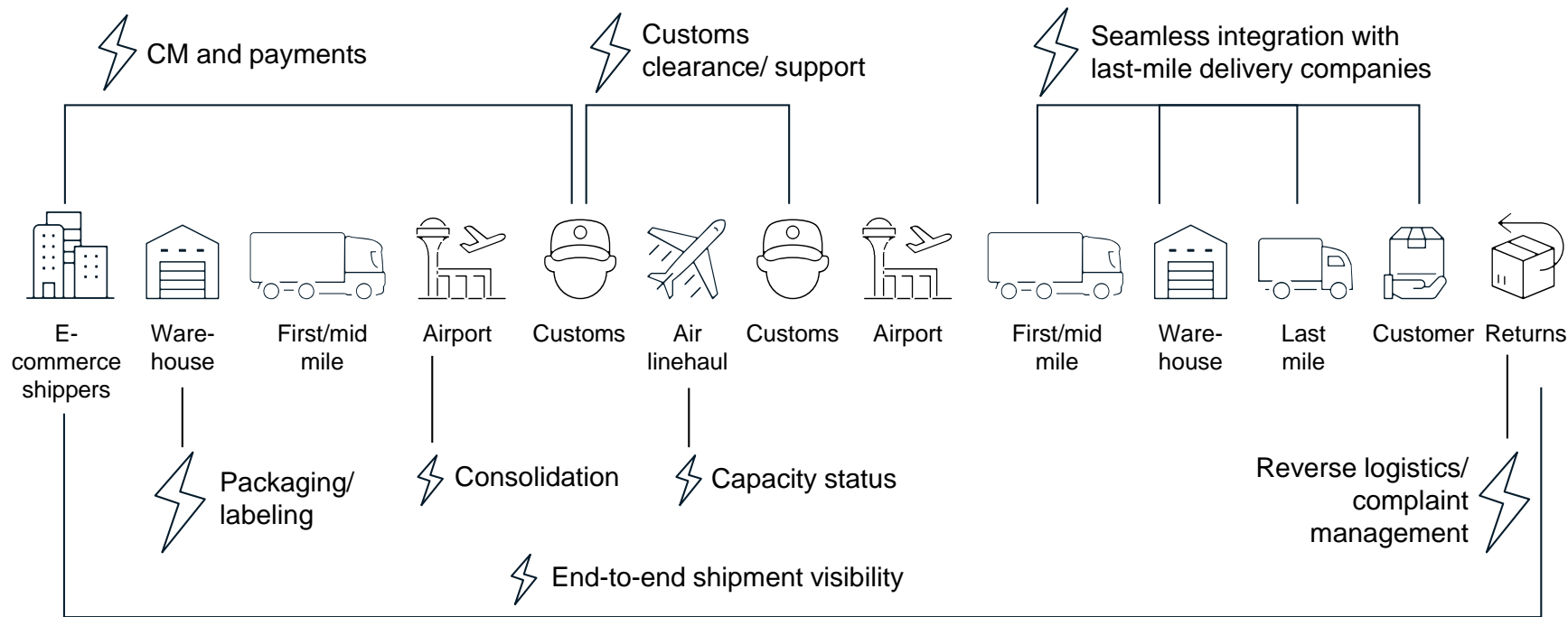
– Enio Rabelo Frota, Cargo Planning Manager

1. Also flies to Europe and Argentina, and operates a few interline general sales agents in Chile, Puerto Rico and Canada

How does Azul Box work?



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



Panel Discussion Q&A with our experts

Please submit your
questions through the
Questions box and
send to **Everyone**



Moderator:

Brendan Sullivan

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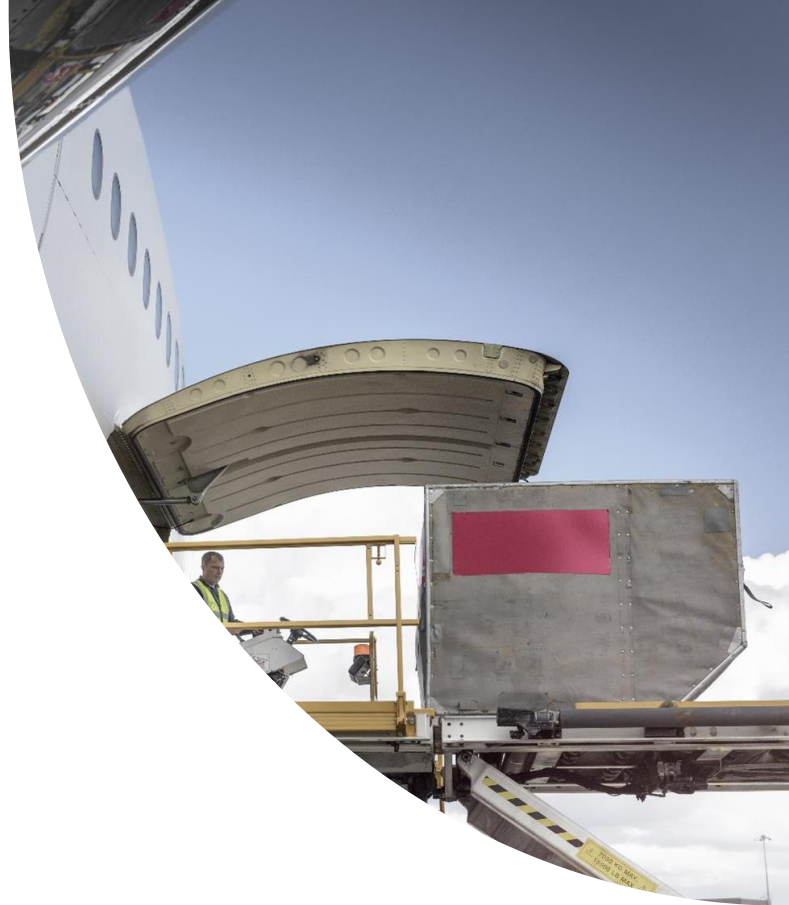
McKinsey & Co.



Wrap Up



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

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

