

Flash Analysis

Credit Analysis

Airlines

>>> Disruptive changes in air cargo – the example of Amazon Air

November 2018, Elena.Sternberg@kfw.de / Niklas.Herweck@kfw.de

Digital players like Amazon are increasingly influencing operations in the air cargo industry, which will lead to lasting changes in the sector. We describe the current situation and analyse the changes for the global air cargo industry.

Processes in air cargo logistics no longer reflect the times

Air cargo is an important and integral part of the global logistics chain. The main advantage of air cargo is that goods can be transported over long distances in a short period of time. The senders pay premiums compared to conventional transport by ship. All the more reason to complain that the turnaround times in the traditional air cargo transport chain (sender-forwarder-airline-forwarder-recipient) are too long. Countless interfaces coupled with a lack of digital processes are together increasing competitive pressure. Only 50% of air cargo shipments are paperless – a very poor rate in the age of digital transformation.

Amazon aims to speed up delivery times with Amazon Air

In this respect, it is not surprising that in 2016, Amazon founded its own cargo airline, Amazon Air (called Amazon Prime Air until the end of 2017), to take control of its own transport chain. The world's largest online retailer wants to enable faster and cheaper delivery for its Amazon Prime customers in the USA and eliminate its dependency on external carriers. Currently, the Amazon Air fleet consists of 40 B767 aircraft leased from Atlas Air and the Air Transport Services Group. All aircraft are 767-200 and 767-300 passenger planes that have been converted into cargo planes. Amazon Air's fleet is set to grow even further in the future.

Cargo hub in Cincinnati to handle 200 Amazon Air flights daily

Amazon Air's cargo hub has been located at the international Cincinnati/Northern Kentucky International Airport near Cincinnati, Ohio since 30 April 2017. The airport is also one of the three superhubs for DHL, the German courier company. The airport will be expanded as part of an expansion plan worth USD 1.5 billion and will then handle 200 take-offs and landings by Amazon Air per day. Amazon's plans for the future will significantly exceed DHL's previous activities at the site.

Amazon Air O&D flights faster than FedEx or UPS

Traditional cargo flights are usually hub stops. Amazon plans to fly Amazon Air point-to-point, directly to the destination region where the shipment will be transported by vehicle to the destination address on the "last mile" of delivery. Amazon aims to cut delivery time by 12-15 hours compared to FedEx or UPS shipping. This is a significant reduction on the quest for same-day delivery seven days a week.

What impact will Amazon's activities have on the supply chain?

Amazon is increasingly enhancing its logistics expertise with its innovative solutions, pilot programmes and partnerships. Even though the original aim was only to compensate for the seasonal bottlenecks before Christmas, entering the transport business represents a direct threat to the business model of traditional logistics service providers. However, Amazon is primarily making inroads into the business of its logistics partners FedEx and UPS.

Still no major impact on traditional players evident in short term

While Amazon is one of the most important customers of the two integrators, no major impact on revenues is expected in view of their stable business model and diversified customer and product portfolio. Amazon Air's fleet of currently 40 mid-size aircraft also accounts for less than 5% of the total capacity of UPS and FedEx's combined fleet of approximately 1,250 cargo planes. Further expansion to create a significant fleet for Amazon Air would also take some time due to the scarcity of cargo aircraft.

Growth in e-commerce stimulates industry as a whole

The main force driving the aviation industry is the uninterrupted growth in e-commerce, which is generating positive development in the cargo industry thanks to the booming parcel business. In particular, global trade in goods has increased significantly in recent years. Since the fourth quarter of 2016, this development has been reflected in the above-average increase in transport volumes (FTK).

New players make realignment of transport logistics inevitable

Amazon's Chinese counterpart Alibaba also presented plans in May 2018 for its logistics subsidiary Cainiao to develop five hubs worldwide, whose main focus will be on cross-border parcel delivery. However, Alibaba will initially cooperate with established airlines and has not yet announced any plans to set up its own airline. In addition, many new competitors from the start-up scene like Flexport or Instafreight are pushing their way into the transport logistics market and will advance the digital revolution in the air cargo industry. In addition, the large established companies are also responding to this kind of change with innovations. Lufthansa's cargo subsidiary, for example, has set up the online platform "myAirCargo", which offers door-to-door cargo transport for the airline's private customers. DHL also founded the digital cargo platform "Saloodo" at the beginning of 2017. This is an open marketplace for all companies involved in the supply chain, offering optimised end-to-end solutions for the entire transport process.

Even though it remains to be seen which players will define air cargo logistics in a few years' time, it is already clear that transport chains will undergo full-fledged digital transformation, turnaround times will be considerably reduced and processing will become more efficient.