

Why Air Cargo Matters To Airports Of All Sizes

Presentation By:

David F. Hoppin

Principal



Network 2005 Conference

March 7, 2005

Orlando

Agenda

- **Why Air Cargo Matters**
- **What Is Air Cargo?**
- **Who Are The Players?**
- **Key Trends**
- **Alternative Airport Strategies**
- **Classic Airport Marketing Mistakes**

Cargo is not glamorous – but it is important to most airports.

Why Air Cargo Matters To Airports Of All Sizes

- **Protect and enhance intercontinental passenger service**
 - Without belly cargo revenue, very few intercontinental passenger routes would be profitable
 - Strong belly revenue increases the chances for new or expanded passenger service
- **Engine for traffic growth and facilities development**
 - Cargo demand continues to grow faster than passenger traffic
 - Substantial downstream economic impact on the community
- **More opportunities for airports**
 - Cargo has fundamentally different demand patterns and industry economics that create viable opportunities for airports that have no realistic hope of intercon passenger service

Without well-functioning airports, air cargo could not deliver the speed and reliability that justifies the high price relative to surface transport modes.

Why Pay More?

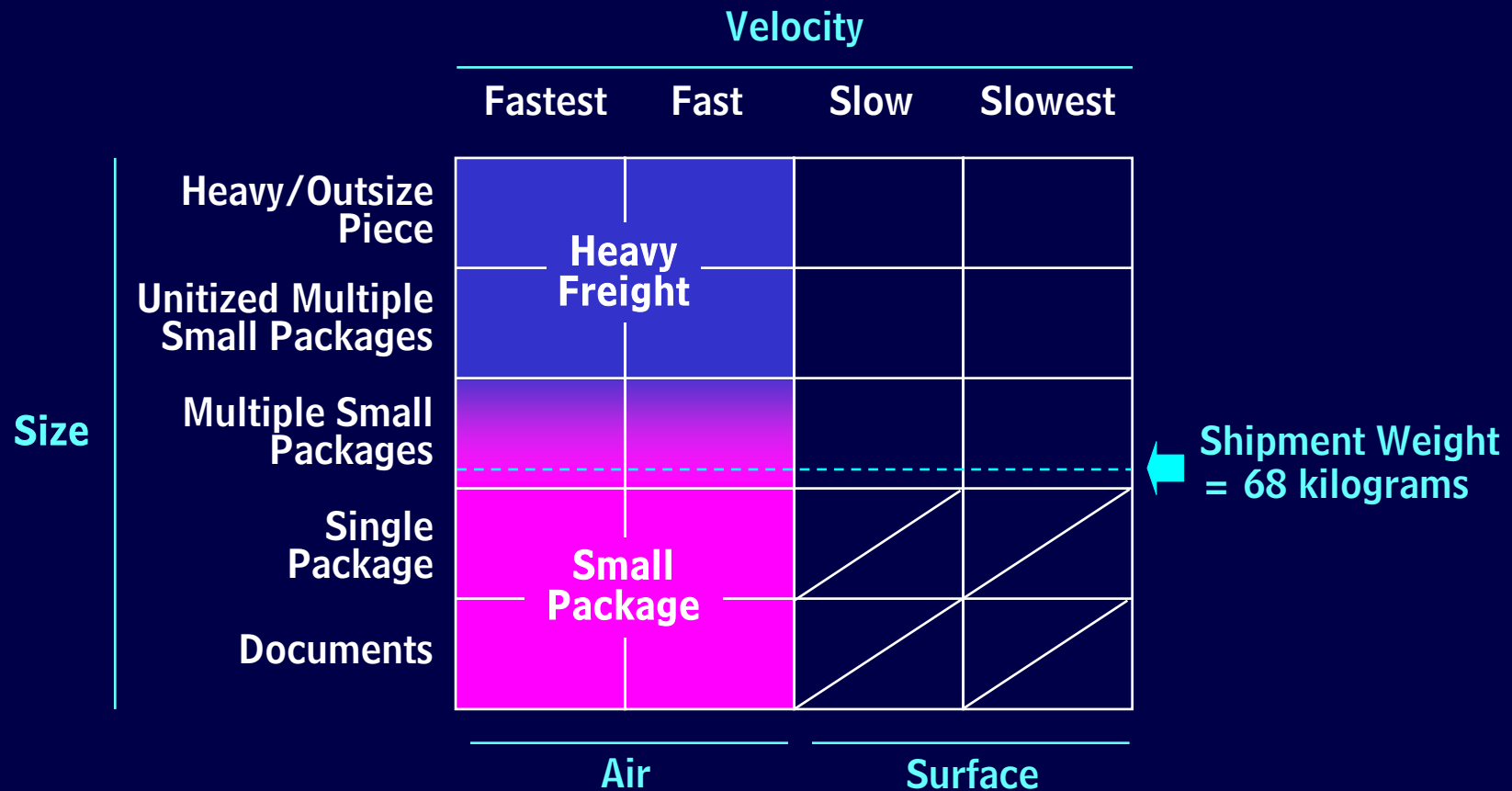
- **Air cargo rates are 7-10 higher than surface transport.**
- **Shippers pay the premium in order to receive:**
 - Speed
 - Security
 - Reliability (on-time delivery)
- **Most air-oriented commodities are:**
 - High value
 - Highly perishable
 - Physical
 - Economic
 - Theft-endangered

What Airports Must Provide

- **Reliable airside**
 - Long runways with ILS
 - Absence of ATC problems
 - Absence of operating restrictions (e.g. curfews)
- **Efficient terminals**
 - Facilities
 - Customs
- **Excellent highway access**
 - Value proposition depends on door-to-door transit time and on-time delivery!

Air cargo consists of small packages and heavy freight.

Air Cargo Demand Segmentation

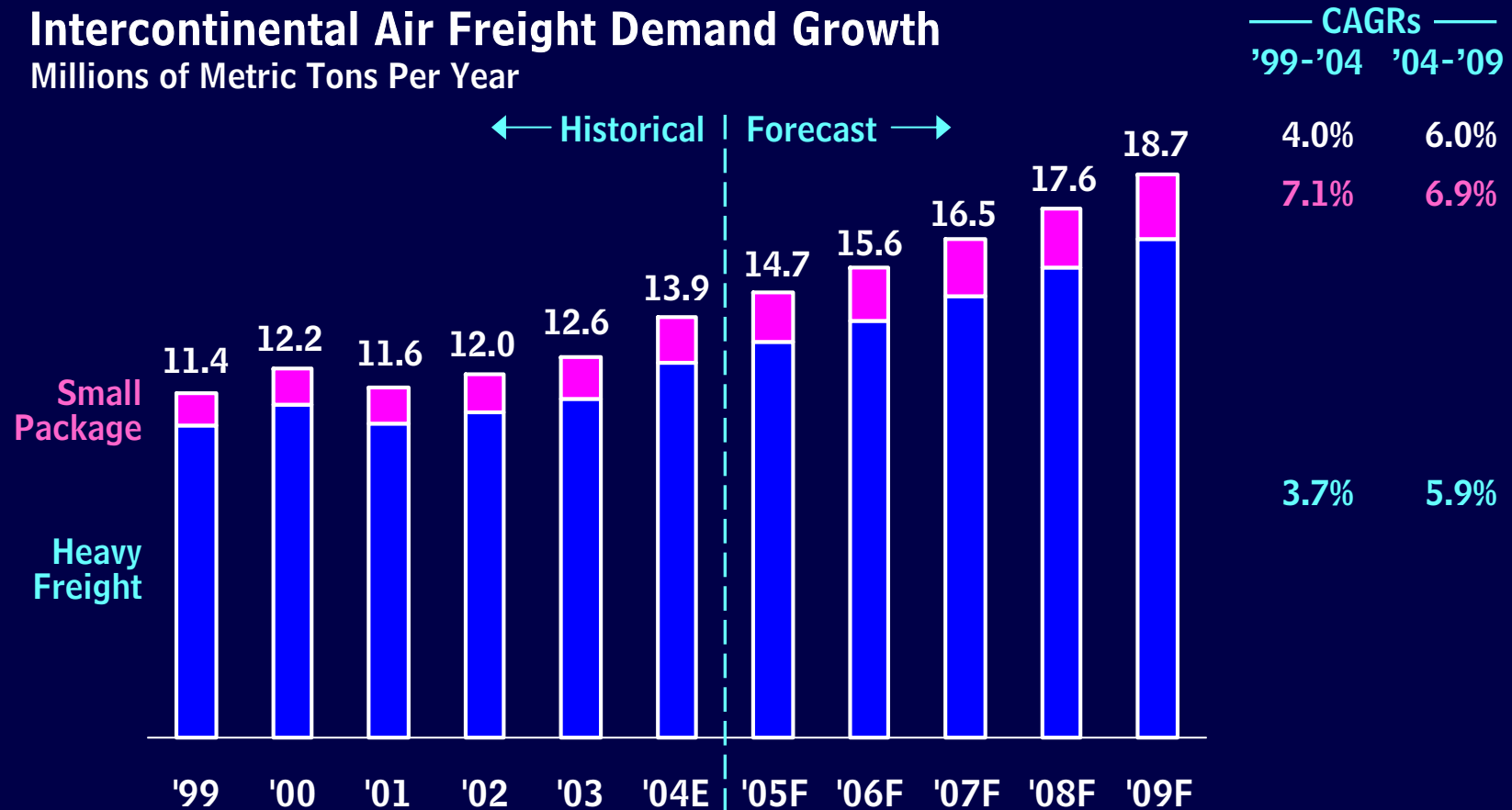


Note: "Unitized" means loaded on a pallets or in a container.

Source: MergeGlobal, Inc.

Small-package traffic continues to grow faster than the overall market – but still accounts for only 11% of tons.

Intercontinental Air Freight Demand Growth Millions of Metric Tons Per Year



CAGR – Compound Average Growth Rate.

E – Estimated

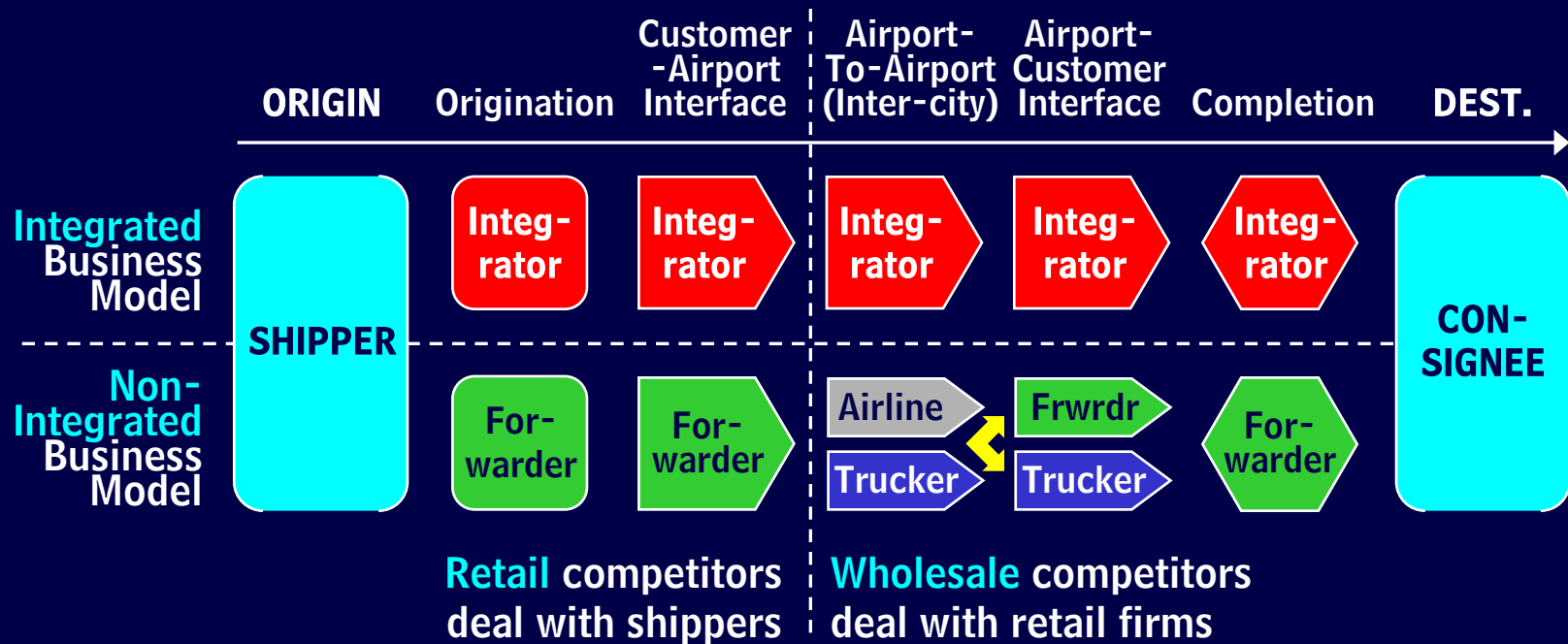
F – Forecast

Source: MergeGlobal, Inc.

The main players are integrated carriers, freight forwarders and carriers (both airlines and truckers).

Air Cargo Industry Structure

Typical Shipment's Journey From Door-To-Door



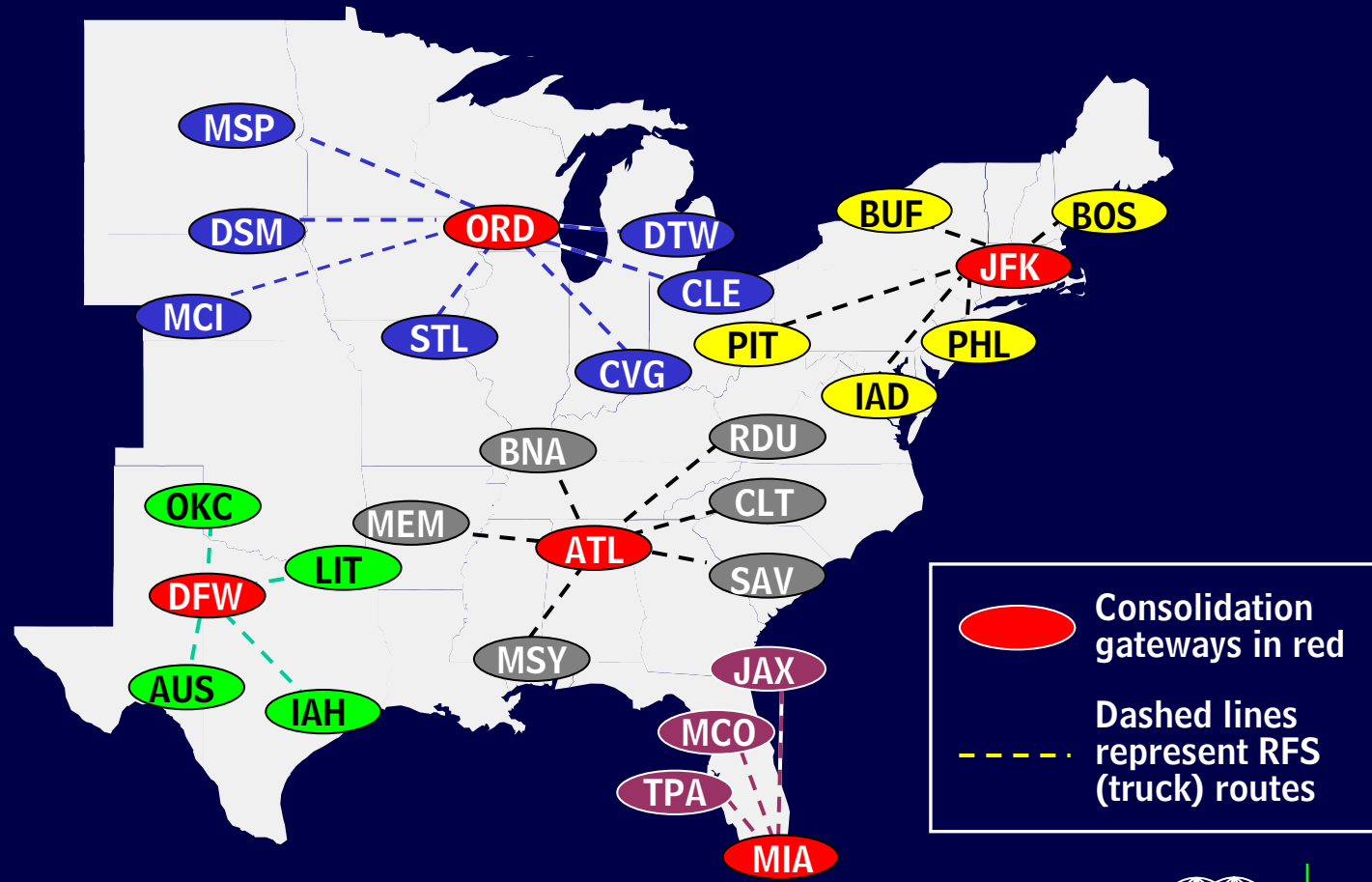
Forwarders handle more than 80% of intercontinental air freight tons!

Note: Intercity truck carriers operate primarily within North America and Europe.

Source: MergeGlobal, Inc.

Freight forwarders operate hub-and-spoke networks that use trucks to feed air freight to consolidation gateways.

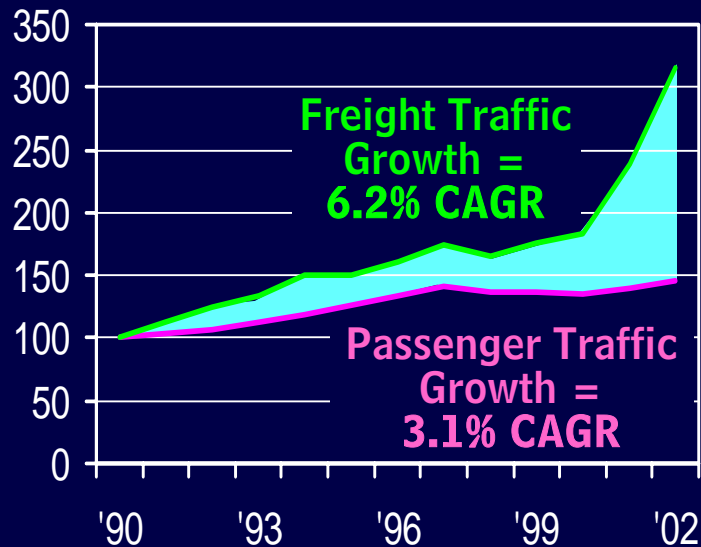
Illustrative Forwarder Gateway Structure



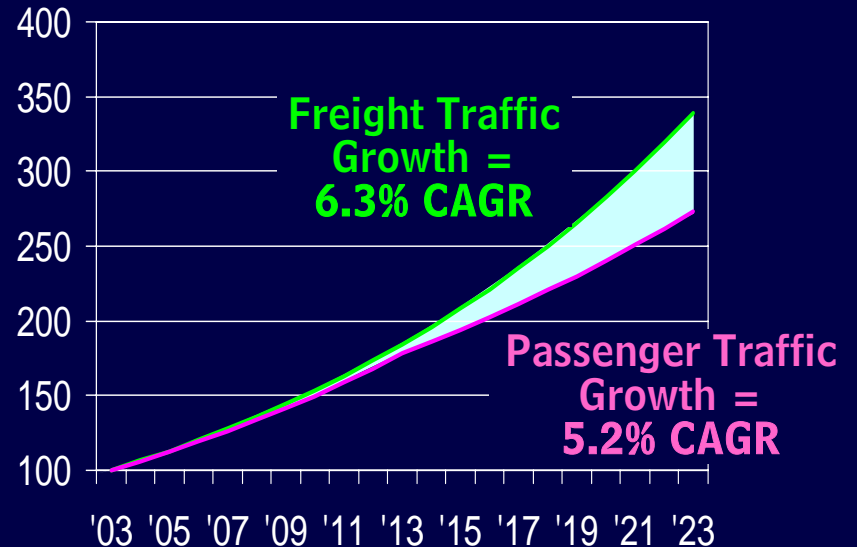
**Cargo demand is growing faster than passenger traffic.
More freighters will be required to handle the demand.**

Intercontinental Passenger/Cargo “Growth Gap”

Historical
Index (1990 = 100)



Forecast
Index (2003 = 100)



“Growth Gap”

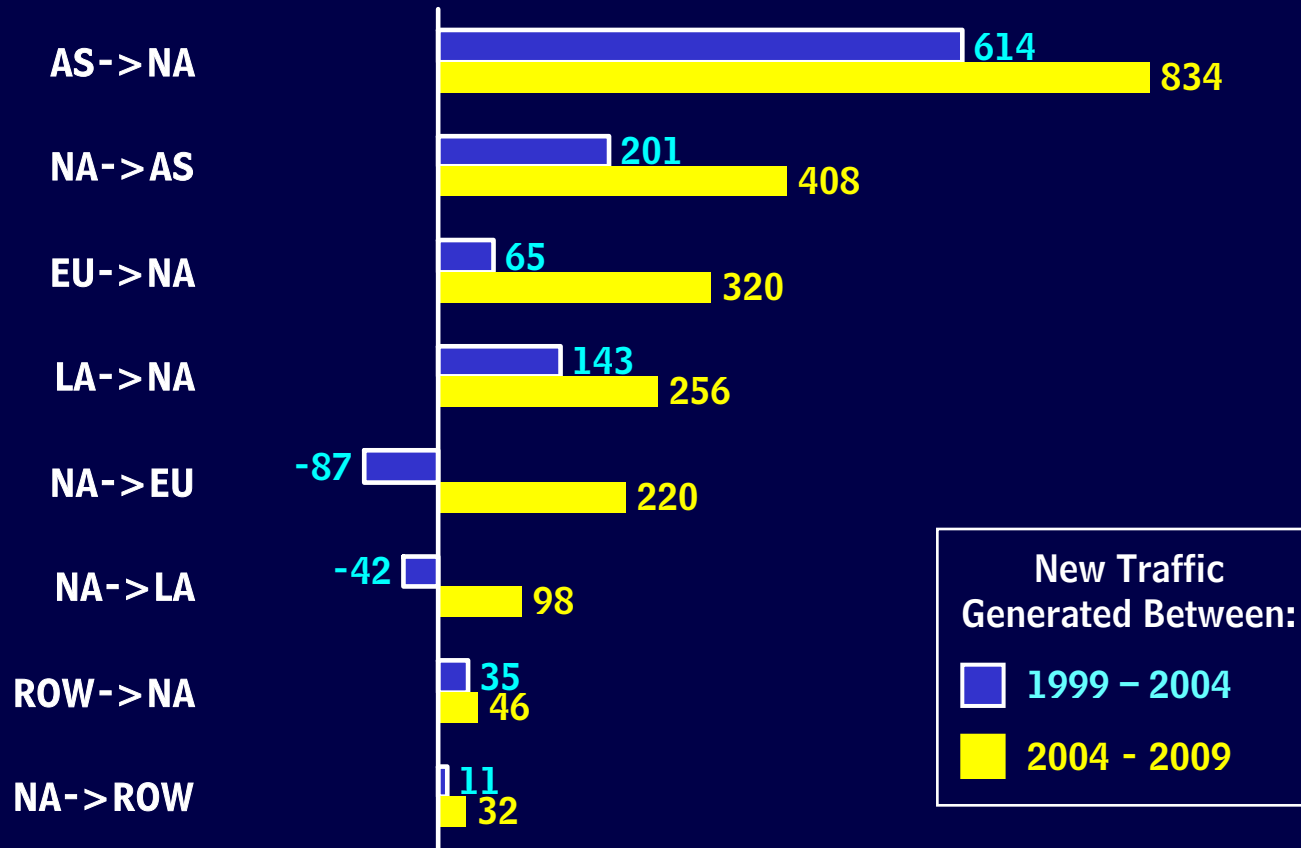
Note: Freight traffic index based on freight tonne-kilometers (FTKs);
Passenger traffic index based on revenue passenger-kilometers (RPKs).

Source: MergeGlobal, Inc. from IATA historical data and Boeing forecasts
(contained in Commercial Market Outlook and World Air Cargo Forecast)

Asian markets will require the most additional freighters over the next five years.

Fastest Growing Intercon Markets To/From North America

New Traffic* In Thousands Of Metric Tons

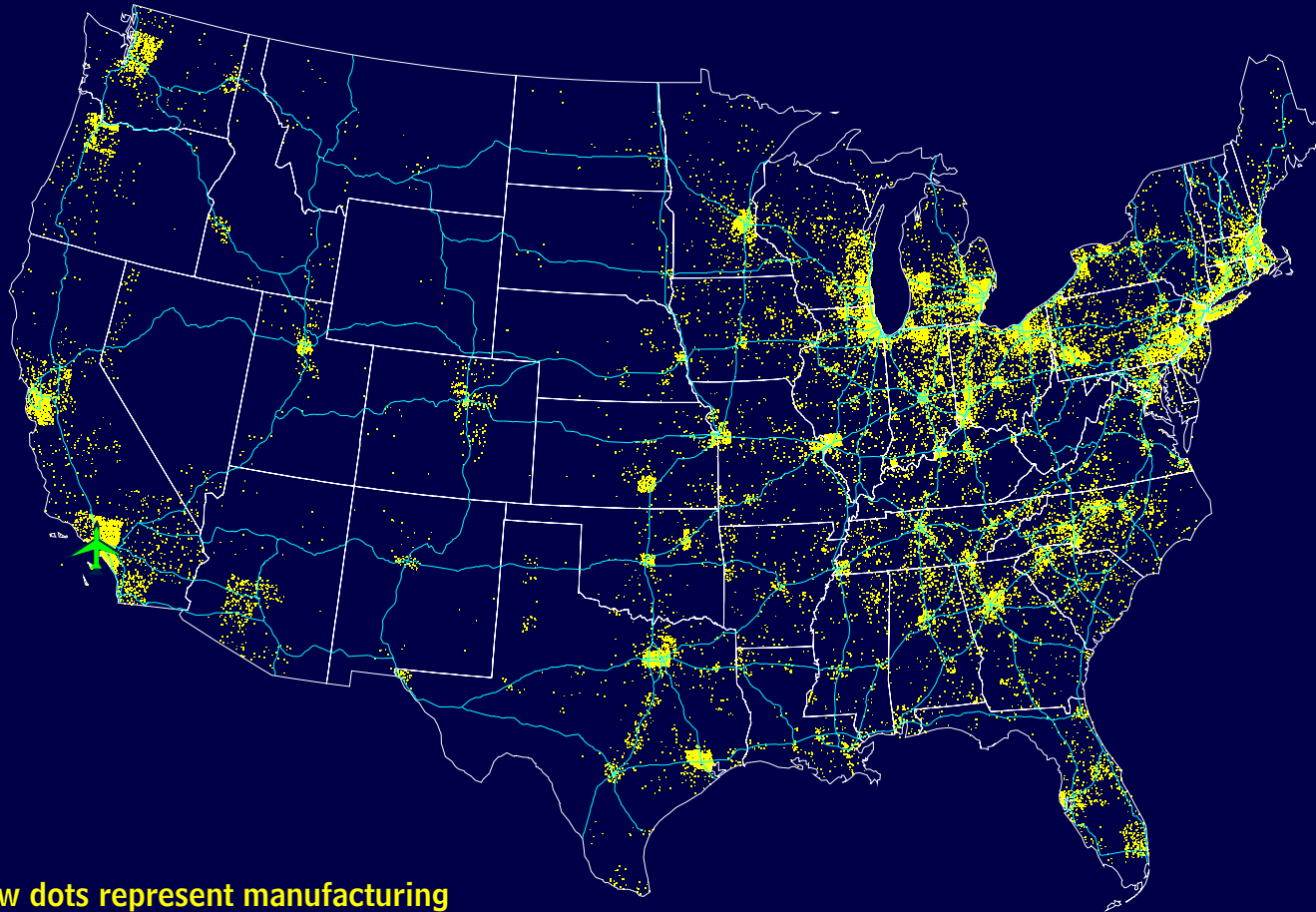


* New Traffic represents the absolute growth in annual tonnage between one year and another.

Source: MergeGlobal, Inc.

Air cargo demand is concentrated outside the major U.S. metropolitan areas.

U.S. Manufacturing Plants & Distribution Centers



Yellow dots represent manufacturing plant/ distribution center intensity

Source: MergeGlobal, Inc. from MGI Global Airlift Capacity Model.

When it comes to cargo, many airports market to the wrong people!

Classic Airport Marketing Mistakes

Many Airports

Focus On:

Airplanes	→	Trucks
Airlines	→	Freight Forwarders
On-Airport	→	Region
Next Year	→	Next Decade
Shotgun	→	Rifle
Marketing	→	Analysis

Instead Of:



Maximize chances for success by:

- Understand the economics for shippers, forwarders and carriers
- Identify a limited number of realistic goals
- Sustain focus on those goals!

Thank You!



David F. Hoppin
Principal
dhoppin@mergeglobal.com

George W. Hamlin
Director
ghamlin@mergeglobal.com