

# Air Express: Making the Right Play

David Jacoby

International air express is hot. It is growing at about twice the rate of general air cargo. What exactly is air express and where is the growth?

Air express is increasingly a blend of air cargo and express mail, as mail carriers morph into logistics companies and air parcel companies increasingly haul freight. Take, for example, the joint venture between China Southern Airlines and Air Bleu, which belongs to the Air France-KLM Group. In addition to cargo haulage, the company will offer a wide variety of cargo logistics services in full-service "door-to-door" fashion that leverages the efficiencies of the Air France-KLM Group and China Southern Airlines' access to the Chinese market, including sales offices.

China is the center of activity today, thanks to several years of blistering growth. In 2006, it accounted for only about 2% of Trans-Pacific cargo volume in 2006. Now it now accounts for over 25% of it. Since the country opened its borders to foreign-owned carriers in 2006 when it acceded to the World Trade Organization (WTO), investment has poured in. In southern China, FedEx has eight stations in Hong Kong and DHL operates a dedicated air express hub there. DHL is putting another \$35 million into Hong Kong. However, DHL is hedging its bets with simultaneous investments in Shenzhen. Shenzhen is also developing as a regional hub for Southern China, and it caters to Sinotrans, which has a joint venture with DHL.

The global players - UPS, FedEx, DHL, and TNT - are dominant. They can sell their network and delivery capability, and are in some cases shifting their infrastructure from other Asian countries to China.

UPS relocated its Philippine hub to Shenzhen and set up an international air hub in Shanghai last year.

FedEx will open a transfer center in



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Hangzhou, and will open another transfer center in Guangzhou in 2009.

- DHL will invest over \$100 million on the Chinese mainland over the next several years.

- TNT bought Hoau Group for its network of over a thousand depots across China. It also established a link between Europe and Singapore in May.

Because the market is so hot, it is attracting capacity and therefore competition is especially. Domestic carriers are losing market share to large global players, especially on international routes where the foreign players have the advantage of their established network.

- Although new Chinese players are sharing in the growth, some of the incremental sales revenue is due to the revaluation of the renminbi versus the US dollar and the advantages that local players enjoy versus foreign competitors.

- In Taiwan, China Airlines is cutting 50

cargo flights and 100 passenger flights per month, and Eva Group will cut passenger flights by 5%.

- In Japan, demand is flat and JAL is actually reducing the size of its freighter aircraft (it says that the move is to maintain more flexible operations without sacrificing overall capacity).

Despite the rapid pace of change, the air express market is at the beginning of a very long growth phase. Strategic and financial investors will be very happy with the results, but will need to choose their plays wisely by ensuring that the companies they invest in make smart supply chain sense. **D**

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*David Jacoby is President of Boston Strategies International, a supply chain research firm that helps executives make critical decisions that drive global growth by providing industry research, cost and pricing analysis, and strategy consulting. To contact Mr. Jacoby or the firm, please call (1) (781) 250-8150 or e-mail [info@bostonstrategies.com](mailto:info@bostonstrategies.com).*