



**Seabury Survey
Identifies High
Performance**



With glimmers of hope ahead for economic recovery, it is useful to gauge which air cargo players are likely to thrive and which will continue to struggle. A new study of management best practices in the air cargo industry reveals distinctive differences between high and low performers among airlines and forwarders.

The study also provides intriguing distinctions between those two links of the air cargo chain.

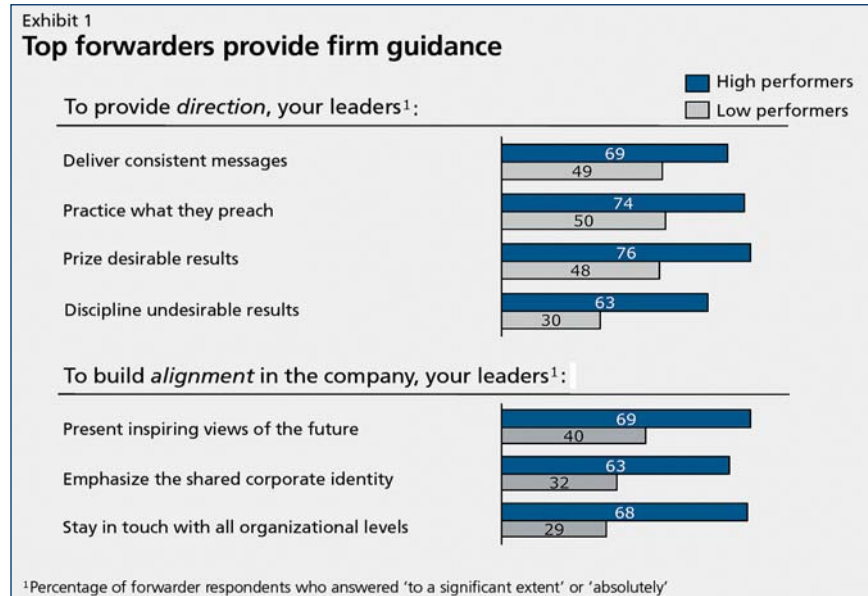
In any economic chill, it is a given that most businesses catch a cold and the weaker ones get a fever. But what are the characteristics of the companies that will quickly shake off their ailments — and what traits are typical of those that will still be aching long after the global economy recovers?

To get answers to those questions, Seabury Cargo Advisory recently conducted a global survey among air cargo professionals, most of them from

“Top airlines quickly responded to large drop in demand”

airlines and freight forwarders. The detailed study tracked five key management themes: senior leadership, strategic planning, client focus, process man-

agement, and resource management. The aim of the survey was to identify management best practices that truly distinguish high-performing companies from laggards in the air cargo chain. Alongside the survey, in-depth interviews yielded hands-on insights into the five managerial topics. This article concentrates on the results that show the largest differences between high- and low-performing airlines and forwarders. Here are the most interesting findings.



SENIOR LEADERSHIP

Leadership teams of high-performing forwarders distinguish themselves from their low-performing counterparts by providing firmer direction and alignment (Exhibit 1). There is a striking difference in how the two groups deal with undesirable results. Of the high performers, 63 percent said such results are followed by sanctions; just 30 percent of low performers said so. It is not uncommon for the salaries of forwarders' senior executives to be 40 percent variable — evidence that forwarders have the financial tools to substantially reward or discourage particular behaviors.

Another key differentiator is the



“High-performers more likely to expand through organic growth than M&A”

importance, which leaders at the high-performing forwarders give to staying in touch with all levels of the organization. Fully 68 percent of the top forwarders confirmed these efforts; by contrast, only 29 percent of the low performers did so. A clear illustration of that commitment: The leadership team of a large forwarder regularly uses video-conferencing tools to convey important messages to all employees. Those communications are complemented with large-scale meetings every few months at which senior managers meet with groups of their direct reports, and middle managers in turn meet with groups of their employees in open, interactive question-and-answer sessions.

Leaders at high-performing airlines do a superior job compared to their industry peers in responding to the economic slump. Close to 80 percent confirmed the use of well-prepared contingency plans compared to less than 40 percent of the low performers. One airline executive put it this way: “... if these conditions continue for another few months, we will move to Plan B”. Furthermore, the high-performing airlines were quick to respond to the often 20-30 percent drop in demand. More than 70 percent said they assemble crisis teams quickly, while only 46 percent of the worst performers in their sector indicated that they react with such decisiveness.

Strategic Planning

Top-performing forwarders have a large lead over the low performers in their industry on how to use the best possible inputs for making strategic decisions. Whereas 88 percent verified they develop a realistic and objective picture of their own strengths and

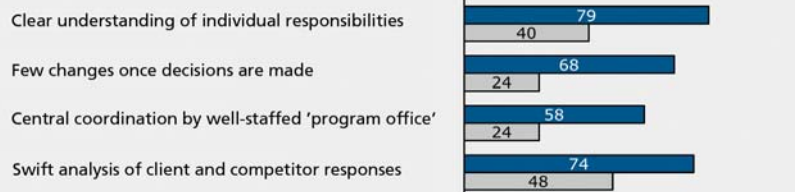
weaknesses, only 40 percent of the laggards said they make such moves. Equally significant differences are found when comparing the efforts taken to analyze the conduct of clients and suppliers in great detail. Only one-fifth of low performers take this seriously, while 69 percent of the high performers make it a priority.

Moreover, the leading forwarders understand that data is not about averages –it’s about gathering and dissecting enough rich data on their sectors to be able to spot important trends. In one

performing forwarders (29 percent) have a little more appetite for growth through mergers and acquisitions than do high-performing airlines (21 percent). But that is not saying much: Neither group plans to stray far from organic growth as the main path for expansion. Furthermore, 32 percent of high-performing airlines intend to downsize their networks, while 60 percent of the weakest airlines said they are opting to do so. This raises the “chicken-and-egg” question of whether they are performing poorly because

Exhibit 2
Top airlines execute their strategy well

Managing strategy implementation is illustrated by ¹:



¹Percentage of airline respondents who answered 'to a significant extent' or 'absolutely'

case, the forwarder obtains detailed biweekly financial updates on a competitor that might not survive. Others validate the old story about forwarders knowing airlines’ performance better than the airlines themselves; they amass and scrutinize volumes of fresh data on the carriers. Importantly, they draw from a wide variety of information sources, both public and private, and free and for-fee, since no single data source covering the airfreight sector offers the total picture.

Studying the actions planned by air cargo companies for the next 12 to 24 months, it becomes evident that high-

they have cut out desirable routes or are cutting out those routes in a bid to perform better.

High-performing airlines show how it should be done when it comes to implementation of strategy (Exhibit 2). Staff at top airlines is twice as likely to have a clear understanding of its responsibilities as are those at the weakest airlines. Business leaders of the best-performing airlines are also much firmer (68 percent vs. 24 percent) about locking in to the decisions they make; at one top European airline, second-guessing is close to a cardinal sin. However, only 58 percent of the high-performing airlines in-

licated that they have a program management office, which means they may be underestimating the importance of having a structure in place that supports the timely implementation of decisions.

Client Focus

In terms of keeping customers center-stage, clear traits of high-performing airlines versus low performers are: their great cooperation among internal de-

“High-performing airlines focus on client profitability, not just revenue”

Not surprisingly, high-performing airlines easily outmaneuver low performers when it boils down to extracting maximum value from their clients. Seemingly the largest differentiator is

(16 percent) performers pay little attention to canceling contracts with less profitable clients. Although this characteristic may be less relevant in weaker markets, it will represent a missed opportunity to increase margins as soon as capacity and demand come back in alignment.

Process Management

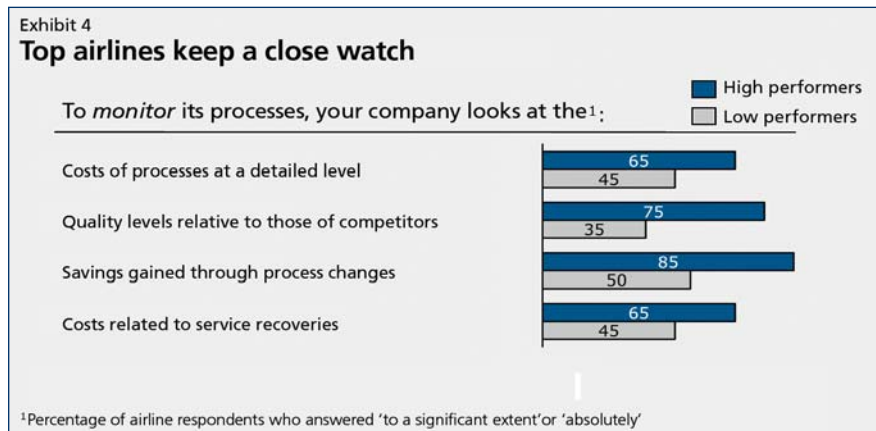
Top airlines more often monitor their day-to-day operational performance in great detail than do low performers (80 percent vs. 50 percent). When asked in more depth (Exhibit 4) about what and how they measure, high performers said they benchmark their performance against their competitors (72 percent) — a sharp contrast to low performers (38 percent). Whereas the latter may be pleased with a 2 percent point increase in ‘flown as booked’ levels, high performers consistently probe further to see how their record stacks up next to that of their main competitors. In the case of one airline, management’s detailed understanding of its operational performance and those of its peers has led it to insource some of its handling. The airline decided that with a revamped product offering, the benefits of outsourcing at the hub in this specific case no longer outweighed those of having the capabilities in-house.

High-performing forwarders differentiate themselves from their weaker peers with their focus on change management. The single largest difference between these groups is the level at which they are able to create engage-



partments (75 percent vs. 36 percent) and their ability to meet rising client expectations (83 percent vs. 32 percent) (Exhibit 3). With regard to the latter, one airline manager mentioned that while five years ago his clients were satisfied when their air cargo was simply ‘kept cool,’ nowadays their goods need to be stored between 2 and 6 degrees Celsius. One caveat, though, as mentioned in one of the interviews: “High touch,” if delivered largely through committed and enthusiastic staff, may be greatly appreciated by clients but it does not automatically translate into “high profitability”. It may obscure the need for continued investments in information technology that can handle many manual customer-centric tasks more cost-effectively.

their superior focus on client profitability. Nearly four-fifths of the high performers have this factor top of mind in contrast to only 32 percent of the low performers. What’s remarkable, though, is that both high (28 percent) and low





“Forwarders place innovation much higher on their agendas than airlines”

ment for specific changes: 89 percent of high performers said they can do that, while only 58 percent of low-performing forwarders indicated they can. One forwarder, eager to become its clients’ preferred vendor, launched a series of tightly defined short-term projects that achieved significant results in aggregate. Rather than striving for massive transformational change in one go, the company opted for a disciplined series of quick wins with which it generated widespread enthusiasm for further change. In line with these observations, top forwarders (84 percent) noted that they provide significant support for their staff before, during and after these often complex changes. Just 58 percent of low performers said they deliver those support levels.

Forwarders tend to have flexible processes which are very much geared to meet clients’ individual wishes; just 50 percent of high-performing forwarders confirmed to minimize deviations to their standard processes. Those who turn away from standardization could potentially run the risk of creating overly complicated and costly processes.

Process innovation uncovers big differences between top airlines and top forwarders. When asked whether innovation was high on the leadership agenda and if the essential means to innovate were available, forwarders gave far higher positive response rates (74 percent) than did airlines (50 percent). That finding is likely a telling indicator about where we can expect truly new developments in the air cargo industry in the years ahead.

Resource Management

For most airlines, cash is currently a scarce and closely monitored resource.

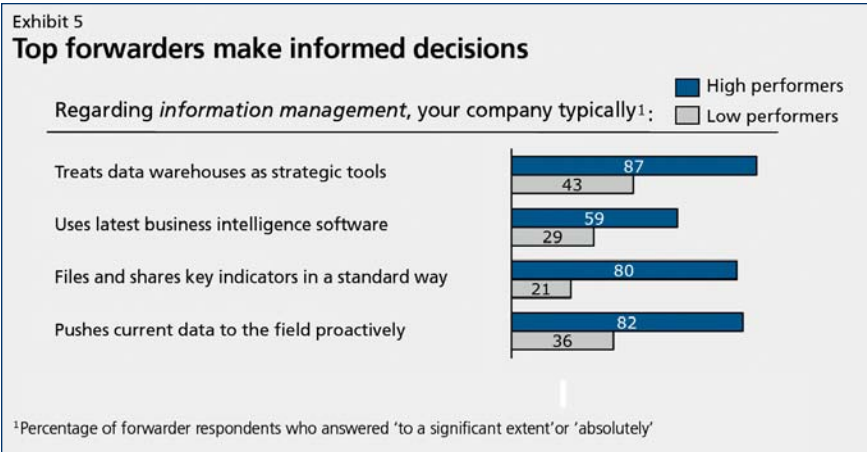


When asked for recent cash improvement actions, high and low performers gave very different answers. Firstly, high performers put most attention toward renegotiating supplier contracts (79 percent), while this was clearly far less important to low performers (43 percent). The highest-ranked source of additional cash for the weak airlines was the reduction of network and service levels (61 percent). By contrast, only 29 percent of high-performing airlines said they are making such cut-backs.

Currently, everybody in the air cargo chain is pushing backward — forward-

ers are looking for concessions from airlines, and airlines are pressuring their handling and trucking services for discounts and other breaks. However, most airlines typically still have at least one-year contracts while forwarders are constantly renegotiating, often on a per-shipment basis. The consequence: Forwarders can cut costs faster than airlines can — in some cases to the point where they extract so much more value from the carriers that they pass along some of the savings as lower prices for shippers.

The adept use of information also separates high-performing forwarders



from others in their category (Exhibit 5). Just one example of how it plays to advantage: One top forwarder proactively pushes analytical data out to its buyers so that when they meet with airlines, they are armed with reams of negotiation data on airline performance, capacity, market yields, industry trends, and much more.

Trends

Asked to identify the industry trends that will be most important over the next three years, respondents overall pointed unequivocally to the credit crunch, with security issues and oil price volatility following suit (Exhibit 6). These trends merit attention because they influence how top and low performers alike will manage their companies over the next few years.

The survey found substantial differences in the ways that forwarders, airlines and integrators view trends that could affect the air cargo industry. A key concern for integrators and forwarders is the de-speeding of the supply chain. Apparently the possible drop in share of time-definite services compared to day-definite and the conceivable shift from air to ocean is not registering as a top priority for the airlines. For their part, integrators, with their large fleets of vehicles and aircraft, seem to be the most sensitive to the need to reduce their carbon footprint over the next few years.



Wrap-up

Today's brutal economy is no place for the poorly prepared. Nor is the hyper-competitive world that will emerge after the economic slump is over. Seabury set out to determine the characteristics that would comprise what

alignment of service offerings with profit. Among forwarders, the low performers need to strive for firmer leadership and more informed decision-making.

There are also several insights that should urge the high performers to stay ahead on these managerial topics. High-

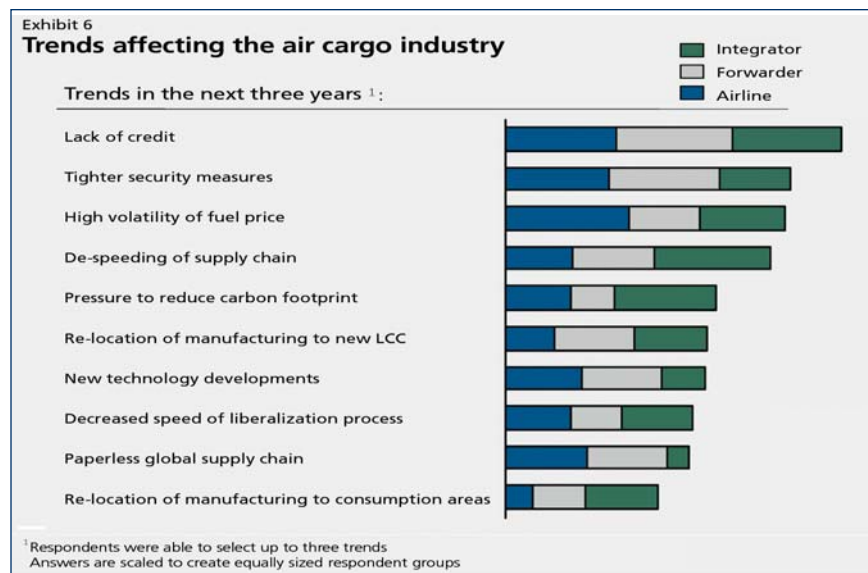
“Forwarders can cut costs much faster than airlines can”

it takes to be well prepared to weather today's storm—and to thrive when the upturn comes.

The study's findings hold much that will help the low performers. For underperforming airlines, there is clearly much room for improvement in the areas of strategy implementation and the

performing airlines could benefit by taking firmer actions against clients that do not deliver agreed volumes. Also, they should attempt to make more use of appropriately staffed program offices to facilitate large-scale implementations. On the forwarding side, high performers should be careful with customizing their processes to the point where complexity and costs will run too high.

What no study can do, though, is transmit all of the urgency necessary for action. That is where true leaders step up. **ACW**



About the research

In April 2009, Seabury surveyed executives, senior managers and middle managers in the air cargo industry on management best practices. Through the respondents' self-assessments, high and low performers were identified. The online survey drew responses from 373 cargo professionals, largely from airlines and freight forwarders in North America, Europe and Asia Pacific.