

## Cargo – driving revenue in the crisis and beyond

### Will cargo become a focal point of airlines’ post Covid-19 recovery?

By Christian Meyer

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As the global Covid-19 crisis continues, airlines realize that apart from being amongst the first industries hit they will probably be the last to recover. Whilst for most passenger airlines cargo traditionally had been an ad-on business it has turned out to be the dominant remaining source of income during the crisis. But what role is cargo going to play in the recovery process and what are the key success factors to recovery?

#### Crisis Impact

Since the global crisis evolved from March 2020, many countries have imposed travel restrictions, effectively denying most international travel. National contact regulations have also severely hit domestic travel. To highlight an example, Lufthansa reduced its schedule by more than 95% and carries about 2% of passengers as compared to before the crisis. Or, on a broad scale passenger traffic had been thrown back to a level, last seen in the 1950s.

#### Cargo capacity development in percent, April 16<sup>th</sup> to 22<sup>nd</sup>, 2020, vs. previous year



Sources: Lufthansa Consulting Research, AirportS

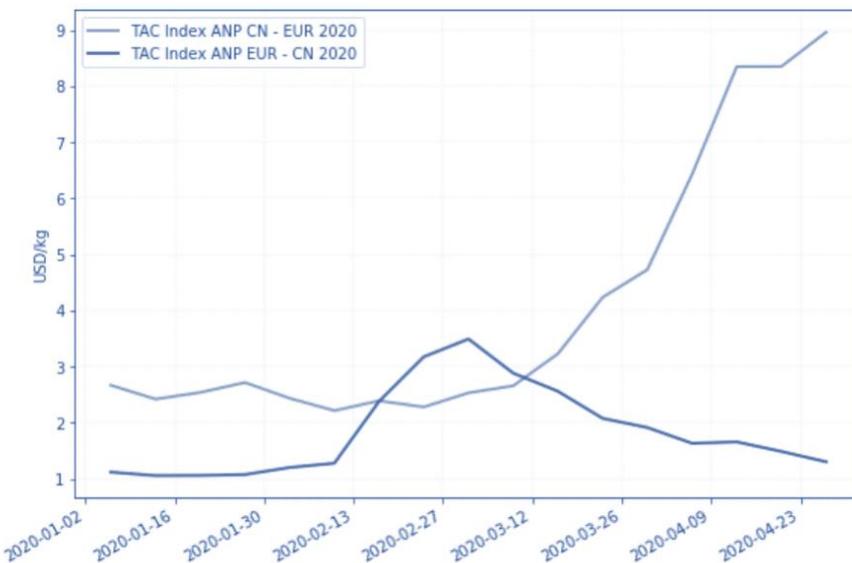
These passenger-driven capacity cuts have also had an adverse impact on cargo – on a global scale 44% of all cargo capacity disappeared<sup>1</sup>. Whilst in a pre-crisis scenario, carriers used passenger aircraft’s bellies to provide cargo capacity, this is no longer available. In consequence, cargo carriers

<sup>1</sup> Based on direct capacity only

have maximized their freighter aircraft utilization and passenger carriers are using aircraft to carry freight not only in bellies but also in passenger cabins.

Nevertheless, it is estimated that in the seven days between April 16<sup>th</sup> and 22<sup>nd</sup>, on a global scale cargo capacity remained around 44% behind the volumes recorded a year ago. Obviously, markets outside of freighter trunk routes are hit even more severely. Hence, cargo rates are extremely buoyant, fueled not only by reduced capacity but also by urgent demand of medical supplies. As an example, TAC suggest that rates from China to Europe have about tripled within a month. Market participants report even more excessive rates on specific trade lanes or for specific cargo products.

### Air cargo rate development between Europe and China and vv.



Source: TAC Index Ltd.

### Recovery scenario

Doubtlessly the industry will recover. But key players agree that it will assume a different shape as compared to some weeks ago. It appears likely that a number of carriers will not survive the crisis.

Overall, Lufthansa Consulting's assumption is that by autumn 2020 no more 30% to 40% of global passenger capacity will be restored. In its Q1 report Lufthansa predicts the recovery process to take until 2023 – and suggests Lufthansa Group's active fleet being some 14% smaller than pre-crisis.

Likely scenarios see domestic and continental travel to re-start first. This will much likely be driven by small equipment, i.e. regional aircraft and narrow bodies with no significant belly cargo capacity. Whilst network carriers may try to serve and connect as many destinations as possible, this will probably be accomplished by the use of both, smaller aircraft and lower frequency. Hence, the first phase of recovery will increase cargo connectivity but will have only limited impact on overall belly capacities. Planning ahead, even by 2023 the cargo capacity offer will probably remain behind pre-crisis levels, and the prospect is, that freight rates will remain on a higher level than before.



## Success Factors

Whilst in the past, airline's network decisions have been made on basis of passenger flows with limited consideration of cargo revenues, this picture might change in future. Given the on-going lack of belly capacity and the resulting high freight rates, cargo may become a significant driver for network decisions. Even under the assumption that passenger volumes will ramp up slowly, cargo has the potential to becoming a route's profitability driver and a decisive factor when it comes to restoring flights. That means airlines' network planning teams have to venture into uncharted terrain. Also, airports have to re-consider their commercial proposition in their effort to making their way back onto carriers' network maps.

From the airline perspective this means a post recovery planning needs to build a revenue model that considers cargo capacity, crisis and post-crisis passenger and cargo flows as well as cargo and passenger yields. Cargo offers some challenges, however. Because cargo flows remain unbalanced, i.e. as opposed to passengers, cargo travels one-directional, hence, they have to be considered on a rotational basis. Also, cargo revenues but also its marginal cost, heavily depend on its density, i.e. whilst its cost are purely weight based, cargo revenues have a volumetric dimension providing an additional lever to profitability. These cargo specifics might become new parameters to be considered by airline network planners.

At the same time airports have to re-consider their commercial potential. In a post crisis scenario, airports will compete for air services. Considering the new relevance of cargo for passenger airlines, air cargo capabilities must be expected to become a more relevant differentiator of competing airports. Cargo flows may open up new route opportunities. Identifying and highlighting such potential is becoming a key factor in re-attracting airline customers but also may open the door to new connectivity and revenue horizons. To achieve this, close co-operation with leading freight forwarders and logistics businesses that are directing cargo flows comes into the focus of airport's drive in winning the competitive edge and becoming leaders in traffic recovery.

## Practical Recovery

Remains the question how aviation firms can quickly generate incremental cargo capacity and what challenges both airport operators and ground handlers are facing in such scenario. In the first place there is carriers' natural response to think about converting passenger aircraft into freighters. Whereas this is a sensible idea it remains a long-term focused scheme since it involves structural changes to aircraft, i.e. strengthening, installing of roller beds as well as cargo doors. Hence, it is costing time and funds at a point where both of these are in scarce supply. In the short term there are hands-on solutions available. Seats can be removed from economy class cabins to store cargo. Or, in a less radical scenario cargo might be placed in over-head lockers and under seats, i.e. where passengers used to put their carry-on baggage, which comes at minimum certification requirements in most jurisdictions. An intermediate approach takes us back to the 1990's when Lufthansa operated night postal flights with passenger aircraft in Germany. Bags were put on top of seats that formed a cargo container where during normal operations passengers sat back and relaxed.



Source: STAT times

Noticeably, not all cargo can be transported in passenger cabins. Bearing in mind that items would have to be man-handled through passenger doors and manually stowed in the cabin, there is a natural restriction to package size and weight. It goes without saying that handling cargo into passenger cabins will have an adverse impact on turn-around times. For sure, handling ULDs and even belly cargo is a much quicker process than carrying boxes along the aisles. This is exactly the point where the challenge extends from carriers to ground handlers and airport operators. In a highly mechanized cargo environment all of a sudden large loading teams need to be made available. Whilst creative solutions may work by re-shuffling people from other airport areas towards aircraft loading it remains a physically demanding task. Also, protection measures have to be put in place to prevent Covid-19 from spreading along the chain of people loading an aircraft.



Source: Aviation Voice

## **Conclusion**

The Covid-19 crisis has hit the aviation industry harder than anything else for the last seven decades. Whilst passenger numbers went back to levels of the 1950's, cargo has been hit much less – and the lost capacities caused soaring airfreight rates.

Whereas the recovery scenario foresees an industry that, by 2023 will probably be significantly smaller than today, cargo will become a much more important revenue stream as compared to pre-crisis. Once it comes to re-building flight networks, airlines will make sure that cargo revenues are factoring into their income mix – hence cargo becomes an important competitive factor for airports, making their way back onto carriers' network maps.

To maximize their share in soaring cargo revenues, carriers have started to use passenger aircraft as freighters – which comes with its own challenges from certification over turn-around times and practical aircraft loading.

Lufthansa Consulting has a more than 40 years of experience in advising carriers, airports as well as other industry stake holders, including handling companies, investors aviation authorities and governments. It successfully delivered more than 3,000 projects covering aviation know how from strategic advice over infrastructure and logistics planning to practical operations management. There is a proven track record in relating topics, such as air cargo management, cargo belly transfer-pricing, cargo and ground handling, network planning and air service development.

*To learn more and discuss how your organization could benefit from Lufthansa Consulting's expertise on Crisis Recovery, please get in touch at [ALcrisis-solutions@LHConsulting.com](mailto:ALcrisis-solutions@LHConsulting.com).*



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