



Session 3: Prospects and Obstacles for Future Fleet Development

Guillermo Ochovo, Director, Cargo Facts Consulting

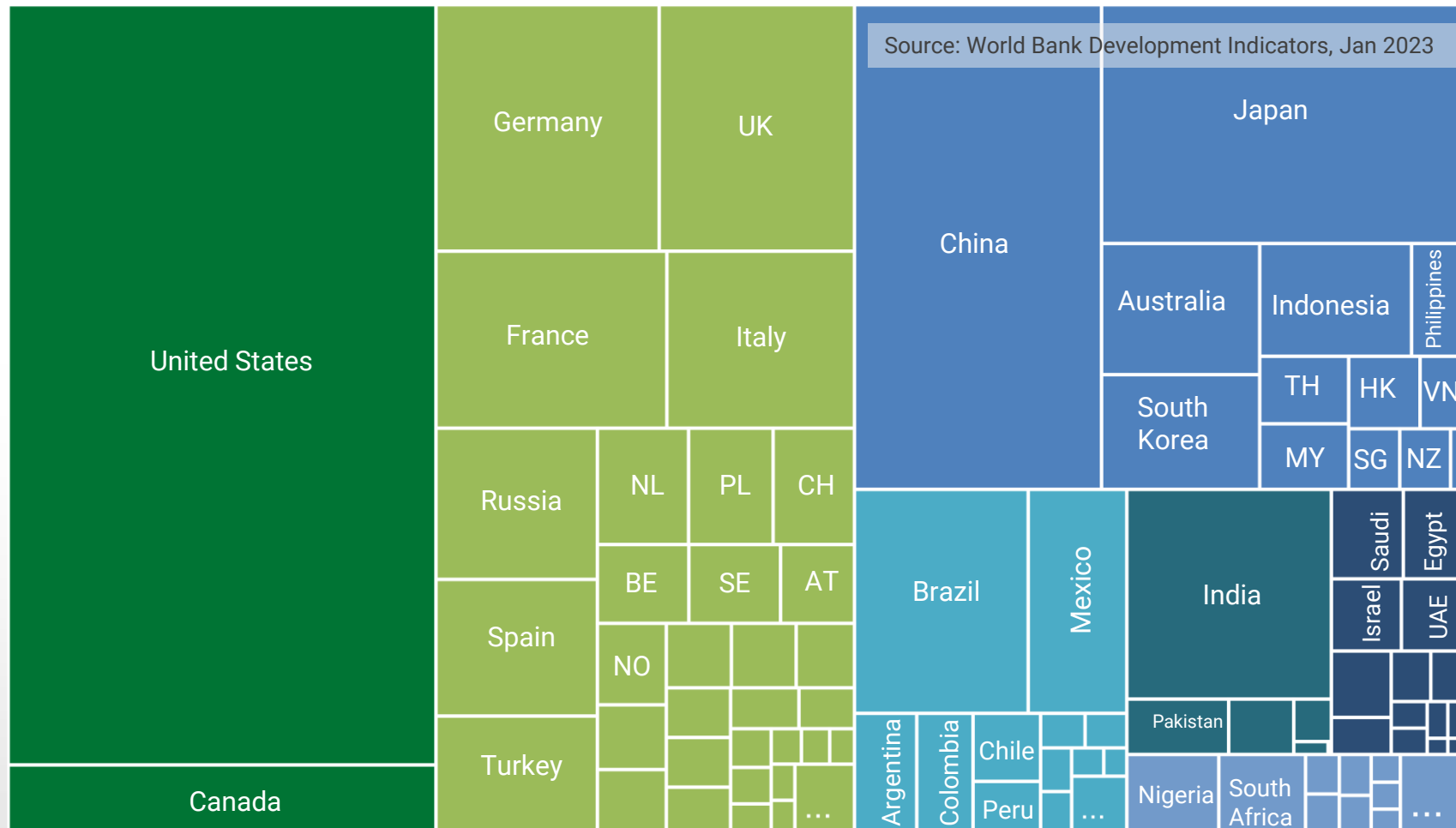
Agenda

- Key Trends and Developments
 - E-commerce
 - Express
- A tale of two companies: Jumia & Aramex
- 2023 Air Cargo Outlook
- Conclusion

E-Commerce

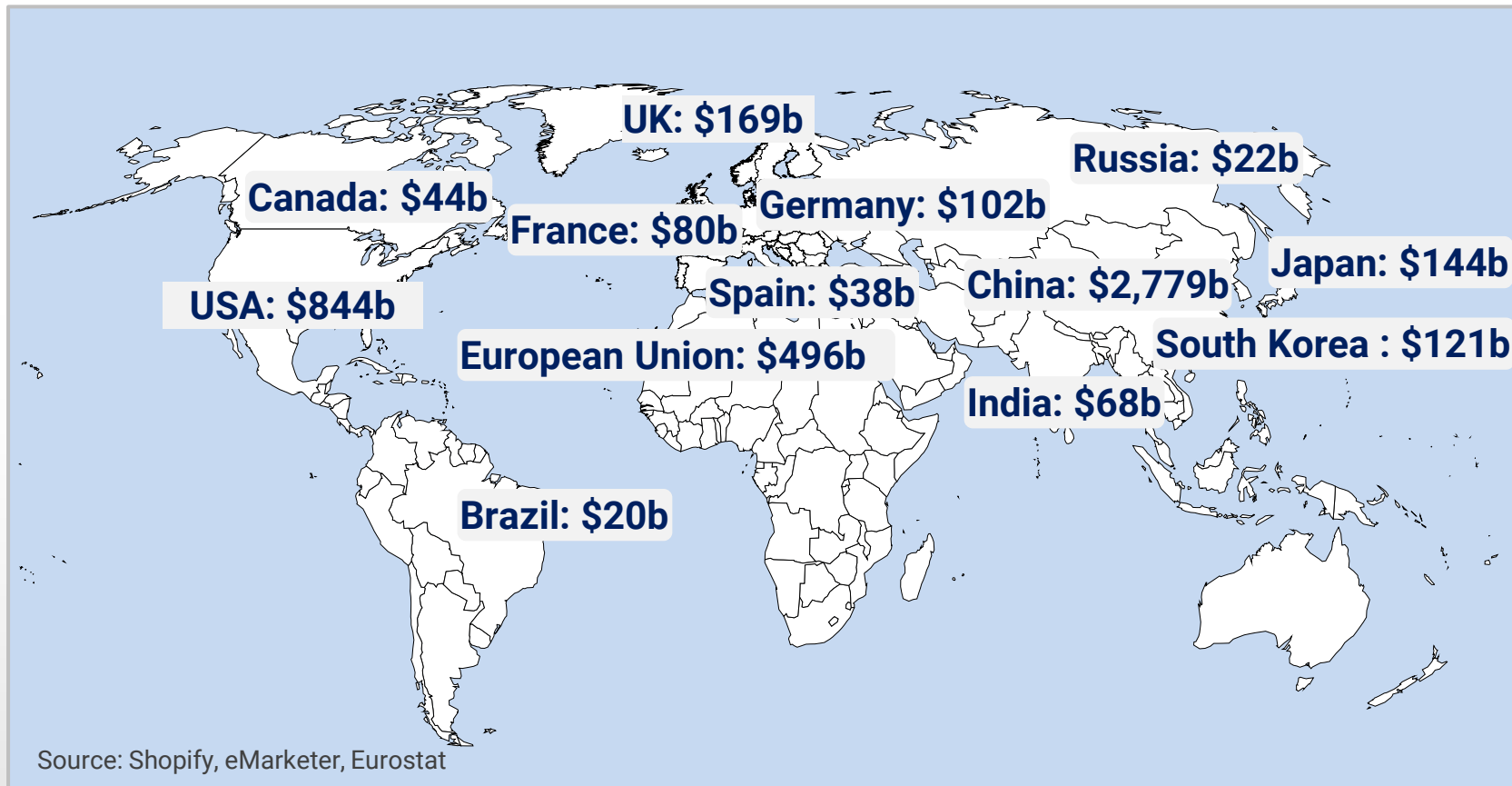
Key Trends and Developments

The US, the European Union, the UK, China and Japan account for two thirds of worldwide consumer spending.



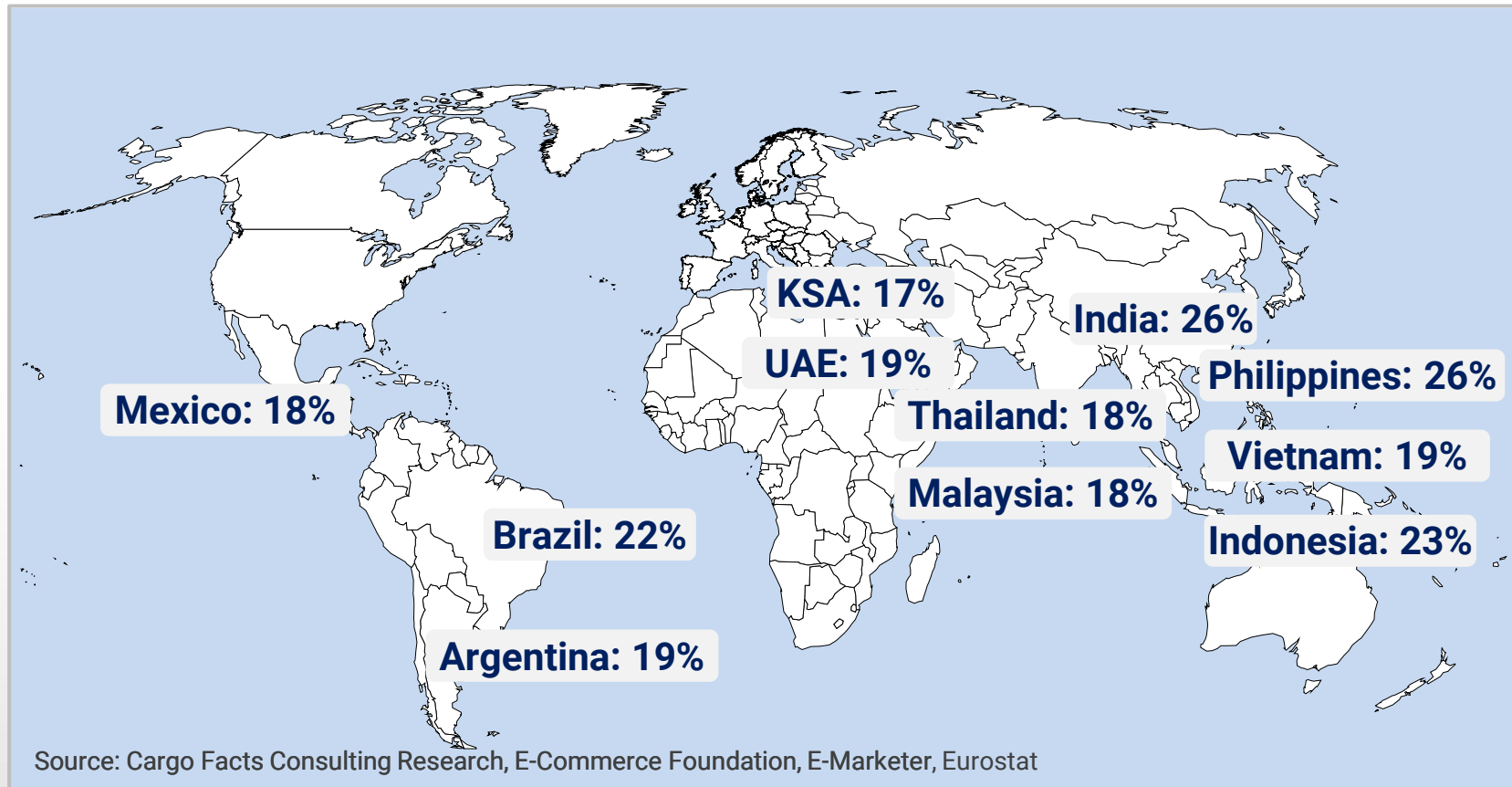
China, the US, the European Union, Japan and the UK are also the largest domestic e-commerce markets.

E-Commerce Revenue by Market 2022



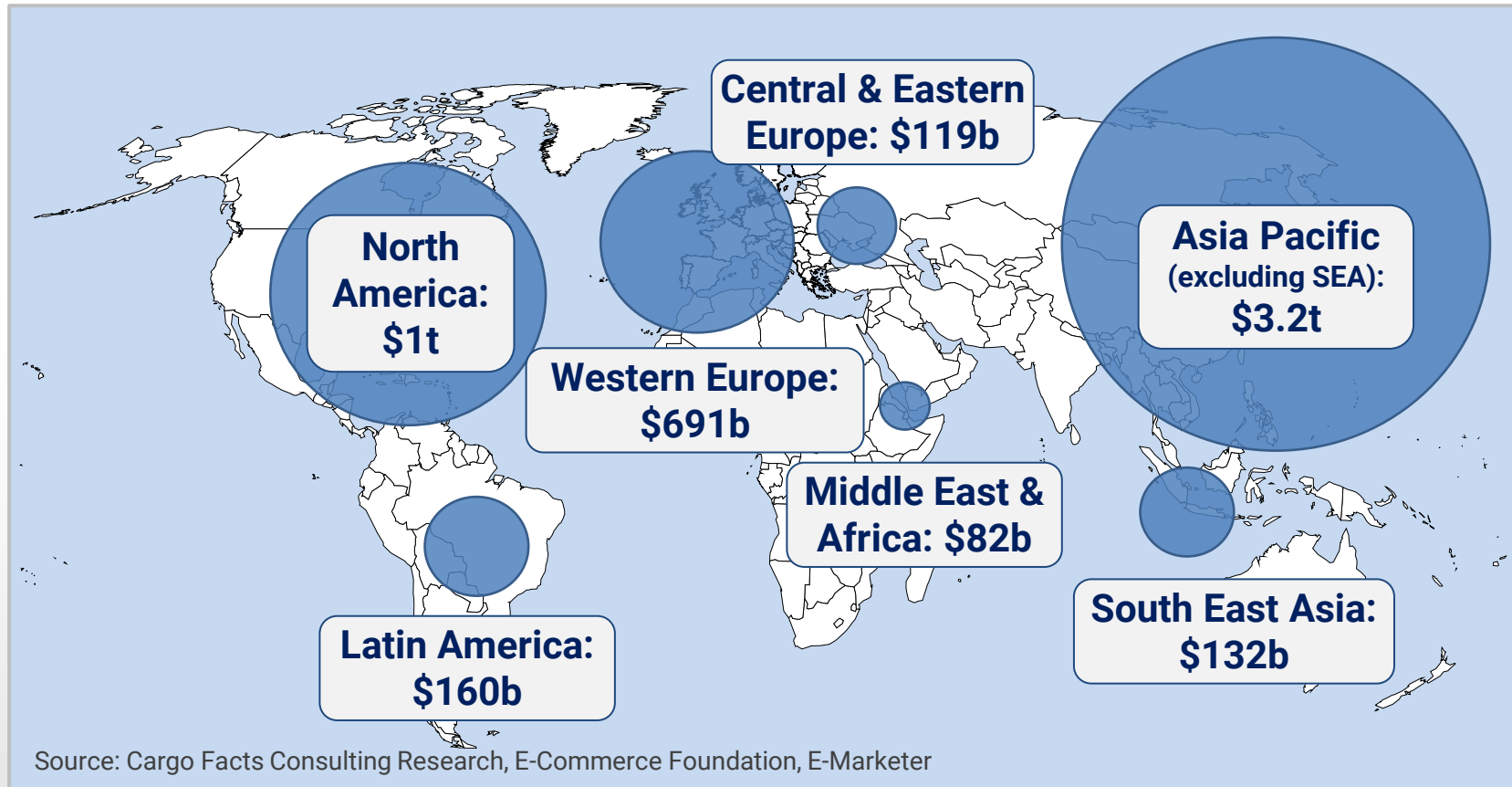
South East Asia, the Middle East and Latin America registered the highest growth in terms of e-commerce sales, overtaking the more established markets.

Largest E-commerce Revenue Growth Markets, 2022



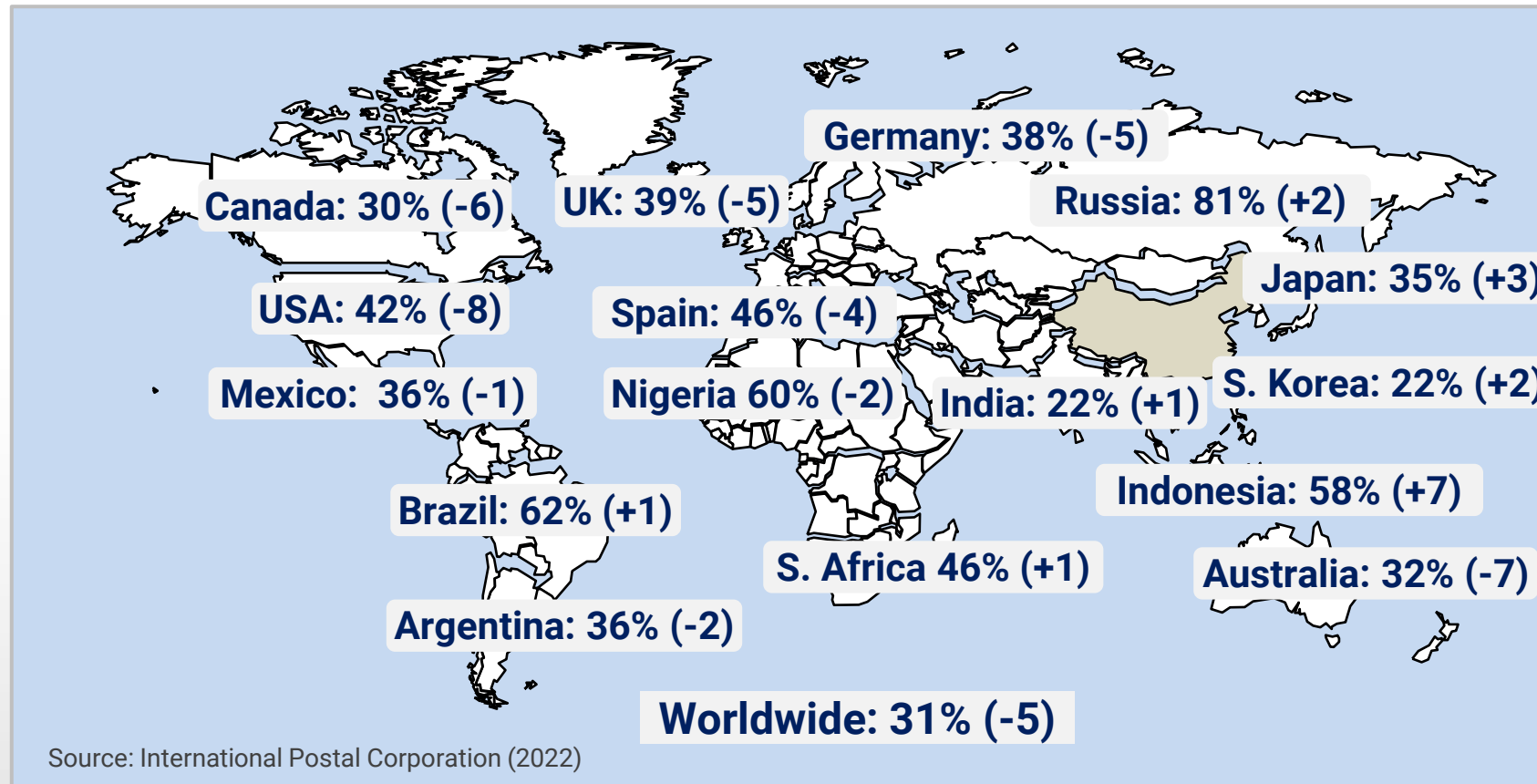
These emerging markets will continue to display the highest growth rates over the next years but off a much smaller base.

E-Commerce Market Revenue by Region, 2022



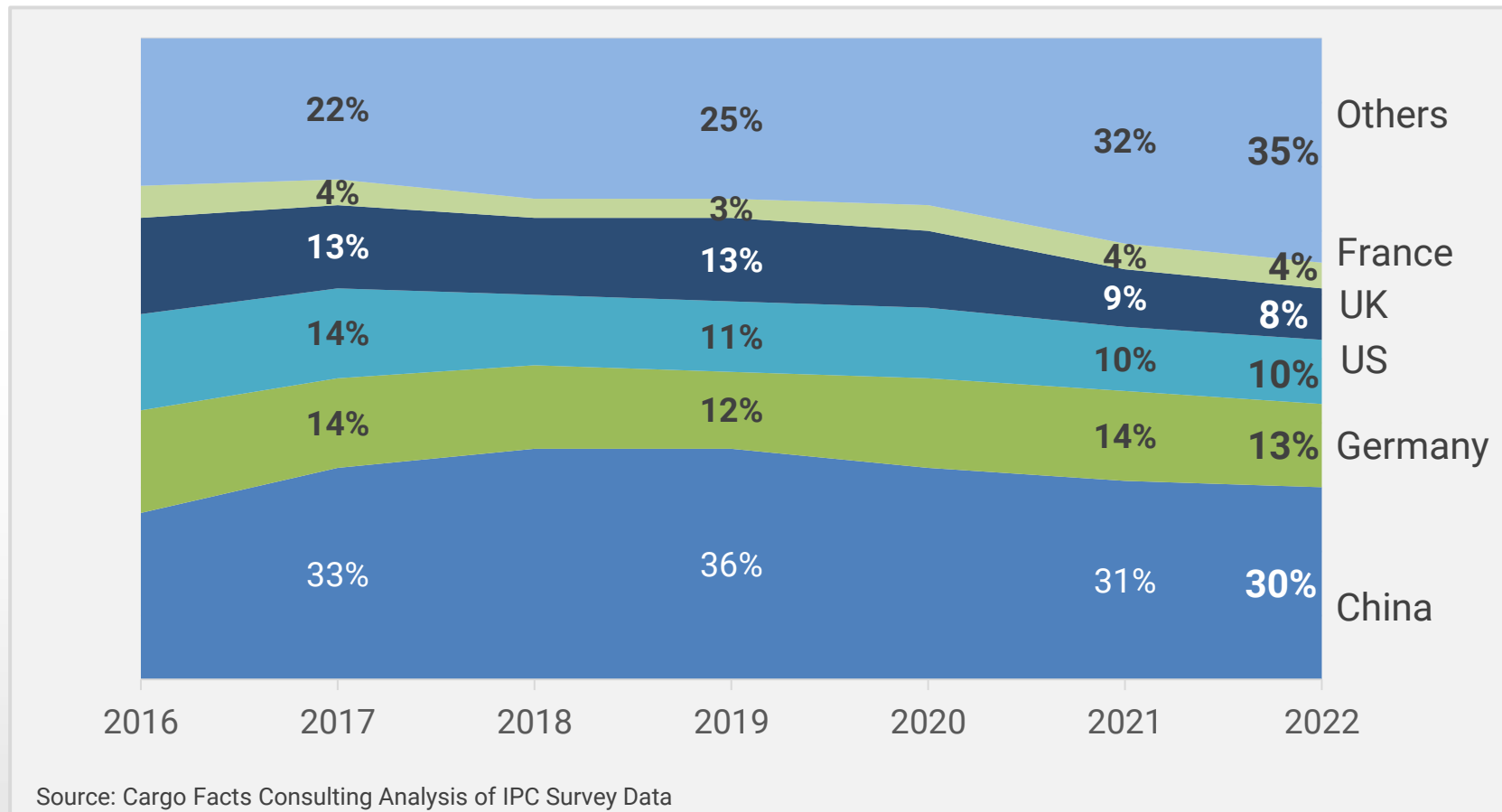
China is still the primary source of cross-border e-commerce but this rate decreased after 2020 mainly because of the lack of international capacity.

Share of Chinese Cross-Border Purchases 2019 vs. 2022



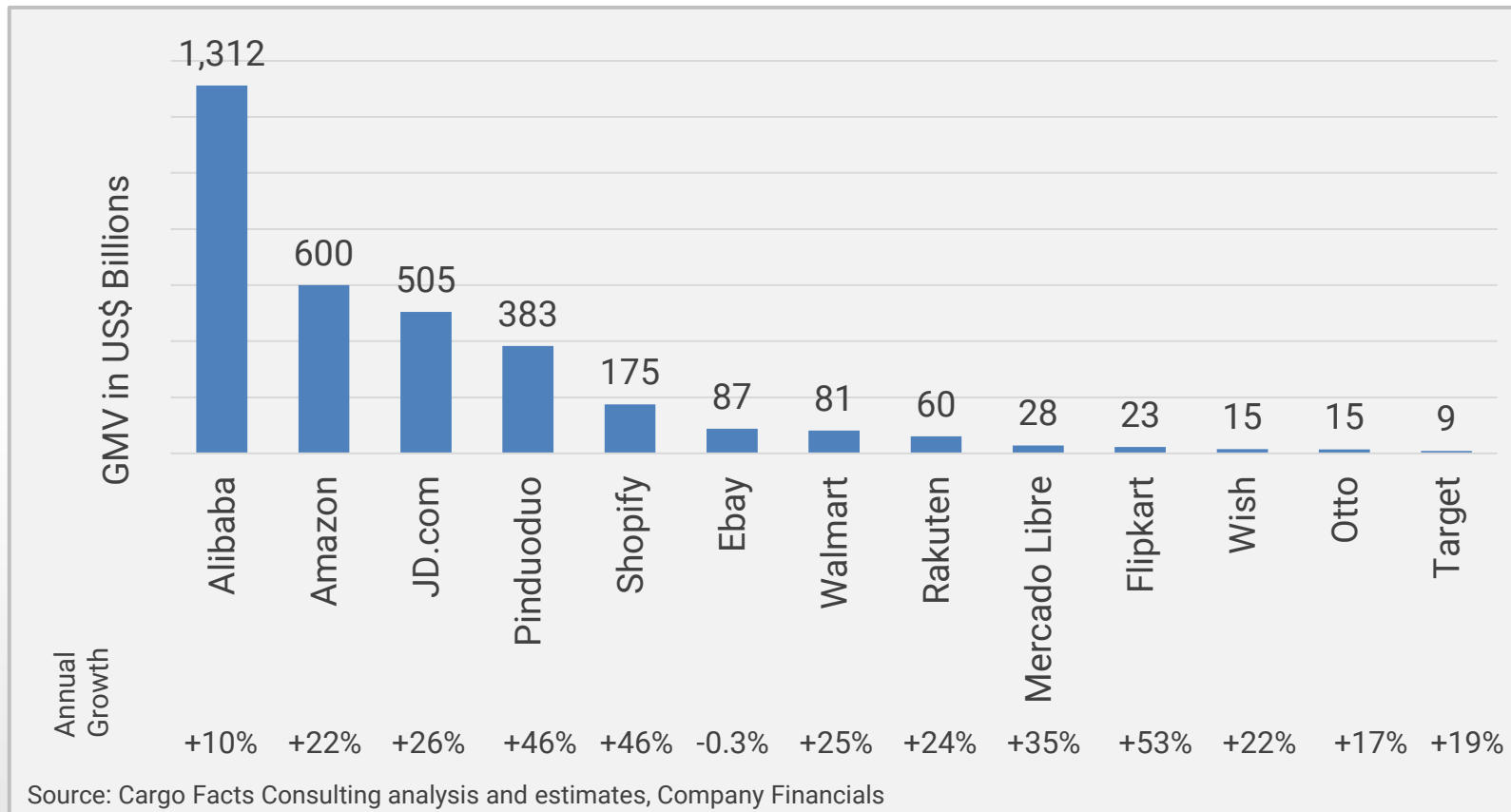
Cross-border e-commerce activity has geographically diversified over the last few years.

Country of most recent purchase, 2016-2022



Thirteen platforms account for half of global Gross Merchandise Value. Alibaba, Amazon and JD.com dominate the business.

Top E-Commerce Platforms in terms of GMV, 2022



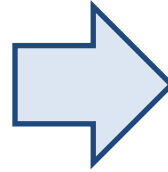
Several trends apply across most e-commerce platforms, even though geographical scope and scale vary between regions.

- **Fulfillment costs continue to rise faster than revenues**
- **Own controlled logistics is seen as a competitive advantage**
- **Logistics networks are open to third-party sellers (Alibaba, Amazon)**
- **Some logistics networks are open to third parties who are not sellers (JD.com)**
- **Platforms moving from controlled to insourced logistics**

The strategies of these global platforms drive (air) logistics opportunities.

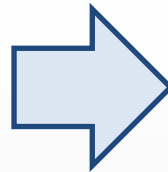
Three Trends and Their Impact

- **Own controlled logistics** is seen as a major source of competitive advantage and some have started becoming logistics providers themselves.



Logistics subcontractor requirements have changed as platforms have made moves to **insource volumes** carried by third parties.

- **A shift from two day to faster overnight and same day shipping** has seen fulfilment costs growing faster than revenues.



Increased use of expedited shipping with express carriers and air capacity, but there is a **pressure on yields**.

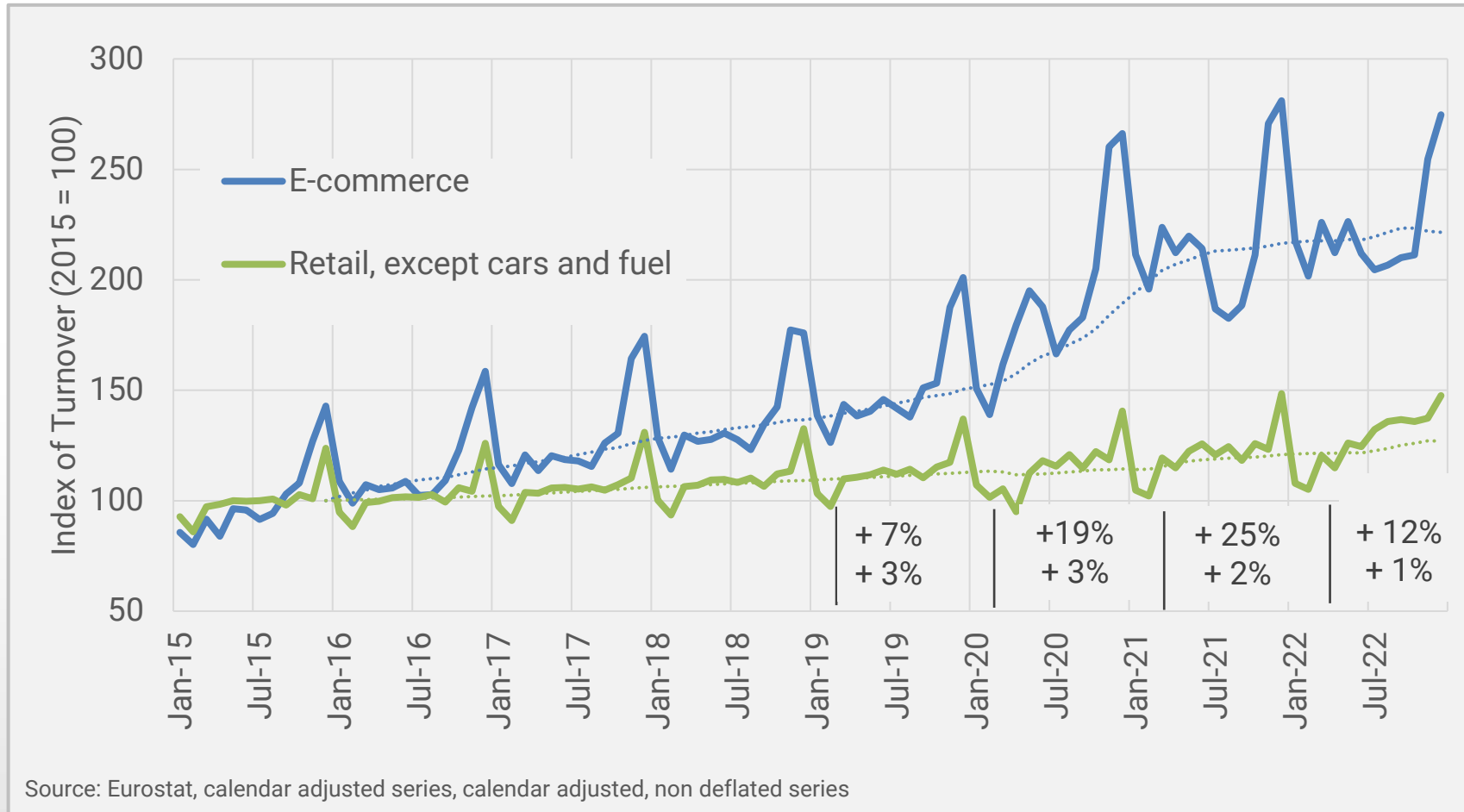
- **Increased reliance on 3rd party sellers** with growth in 3rd party sales outpacing own sales.



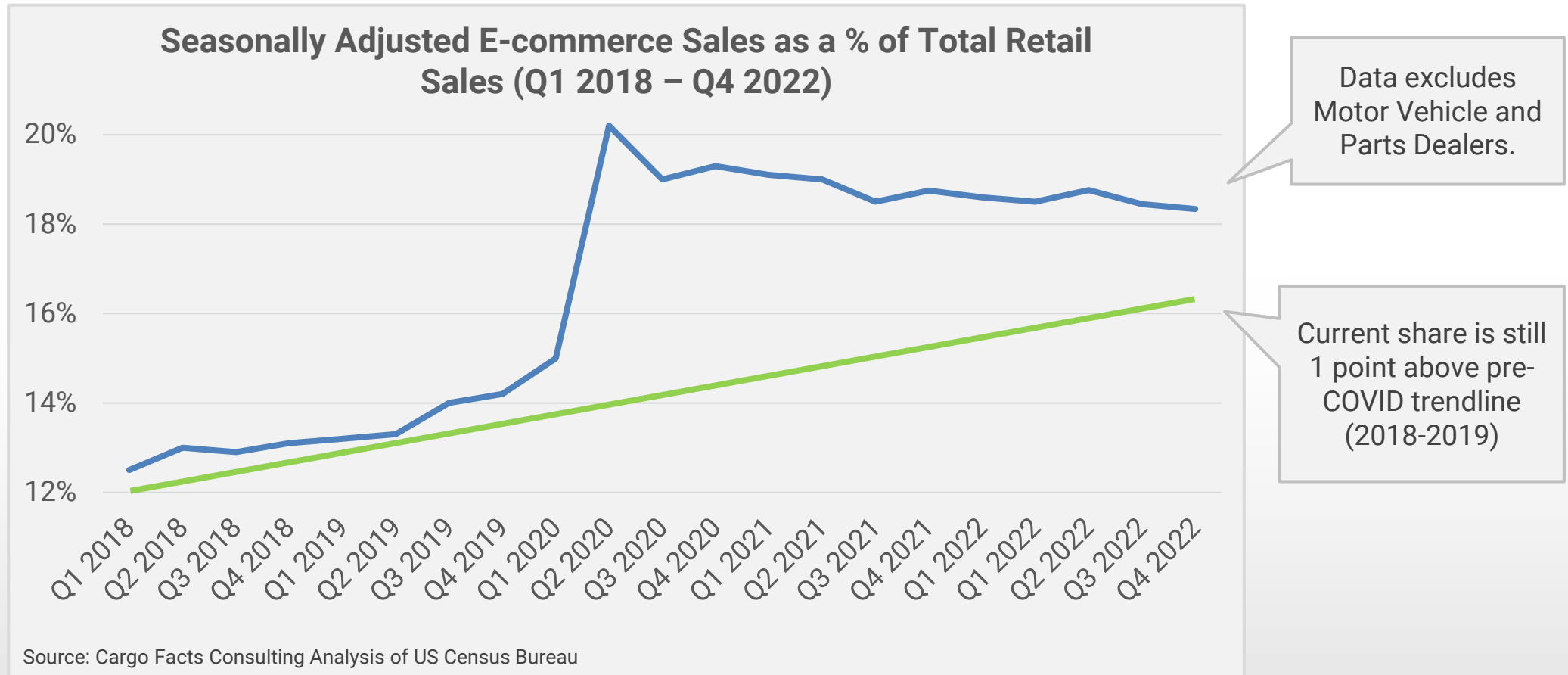
E-tailers are becoming **integrated commerce, logistics platforms** and finance providers.

EU e-commerce sales continue showing signs of normalization.

EU-27 Retail and E-Commerce Sales Index: Jan 2015 – Sep 2022

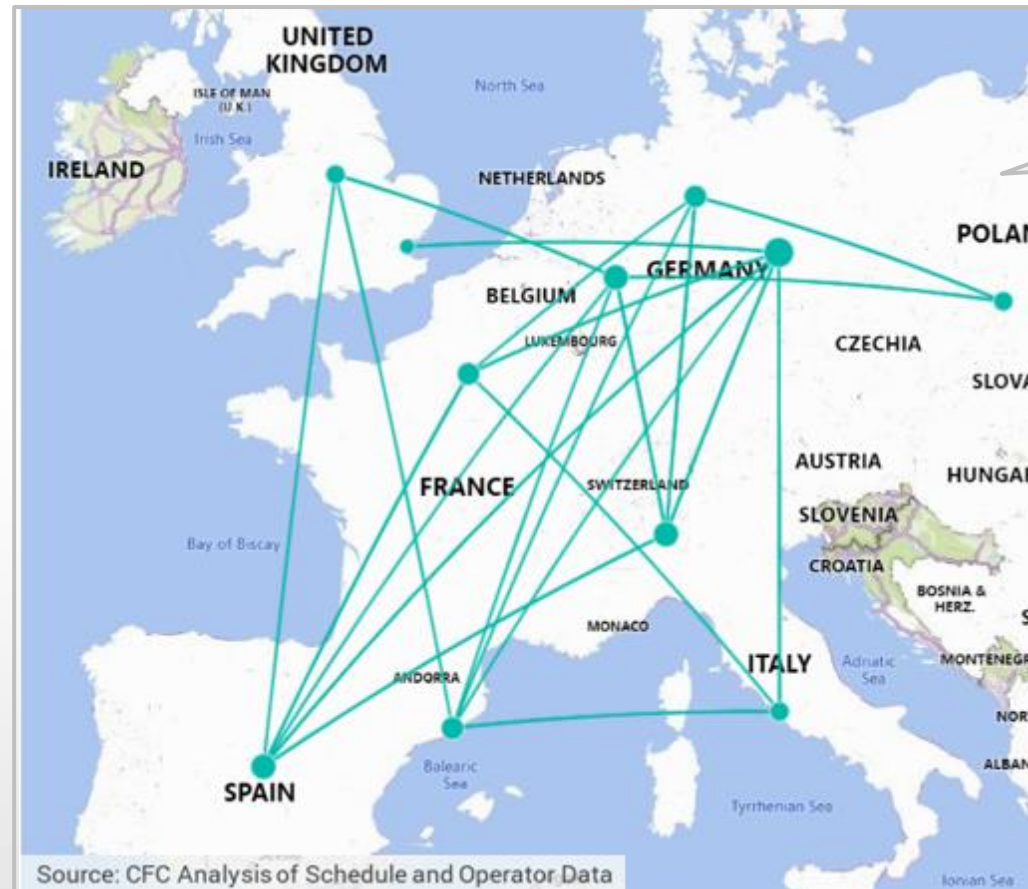


US e-commerce sales activity continues to move sideways at just over 18% of total retail sales, down from the peak in 2020 but above pre-COVID levels.



Amazon currently operates a network with 50 flights per day or about 1,500 per month.

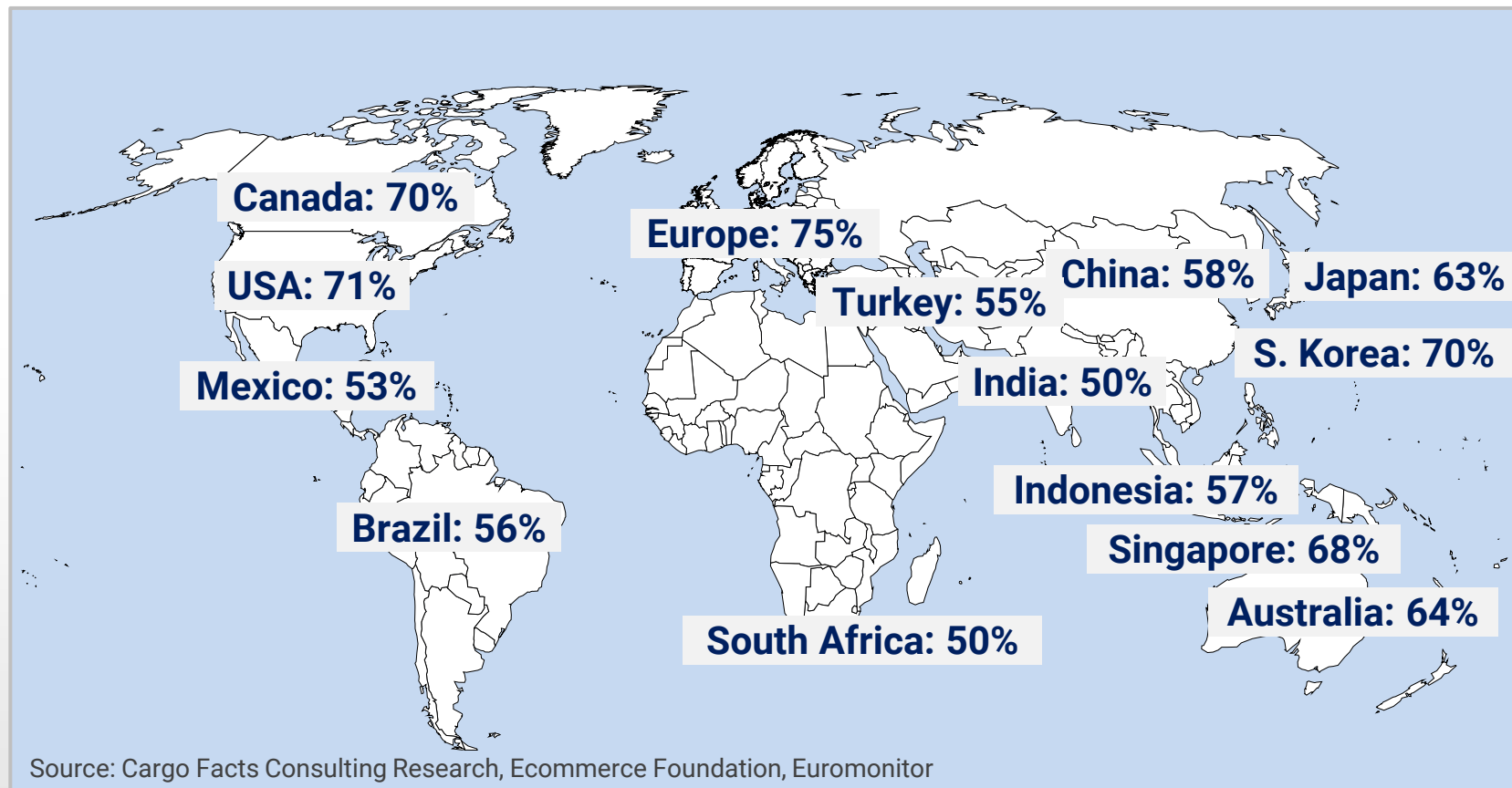
Amazon Air Network, December 2022



2022 Expansion focus: Italy, Poland & Spain markets

Postal networks have become 'e-commerce parcel networks' - good for volumes but requiring large investments and changes in operating patterns.













Share of E-Commerce Packages in Postal Parcel Networks 2022



Express Key Trends and Developments

2022 volumes down, yields up. E-commerce penetration kept going down with business-to-business traffic taking a larger share.

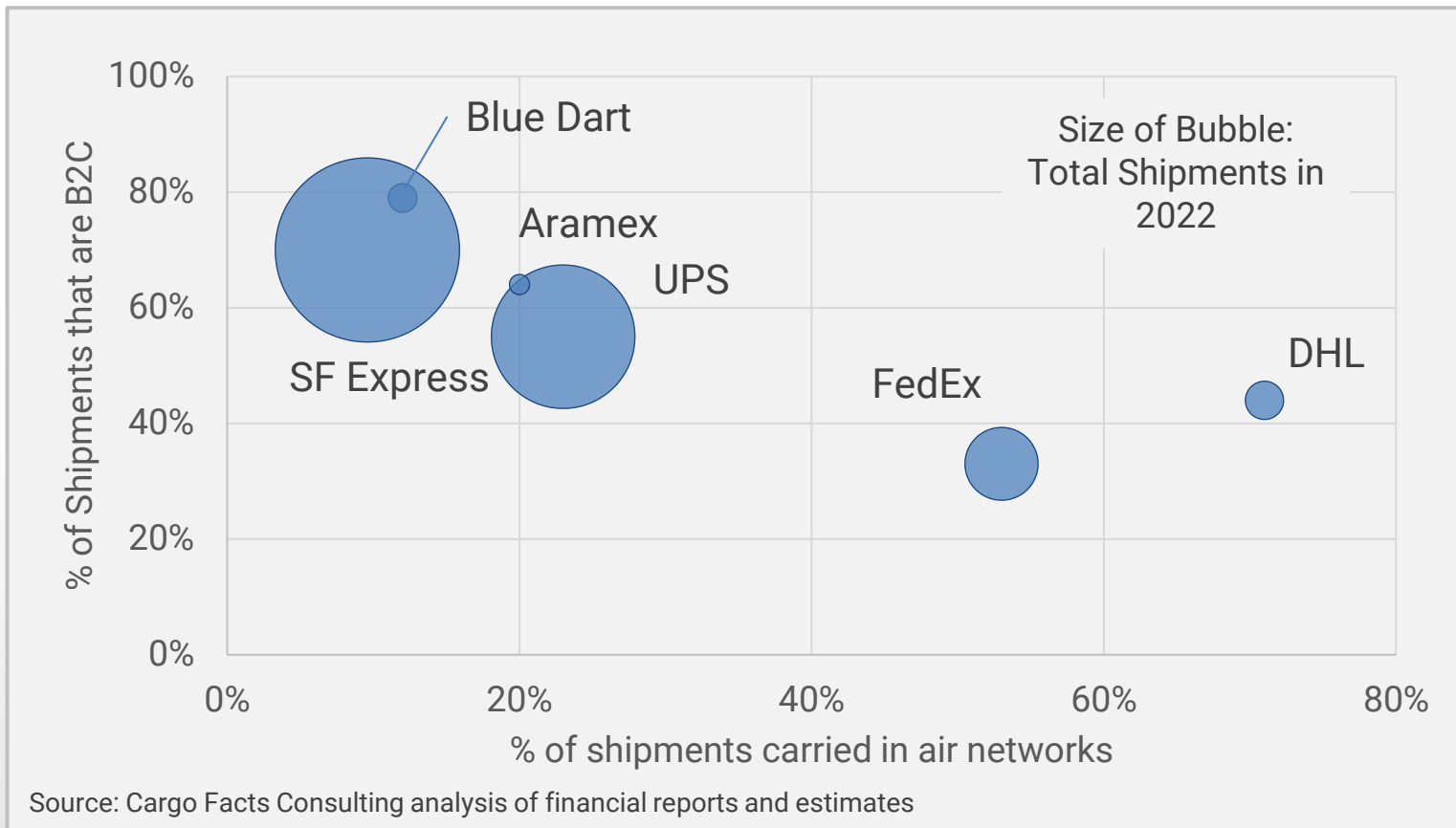
2022 Express Carrier Performance by Market

| Company | International Export Volume | International Export Yield | Domestic Volume | Domestic Yield |
|--------------------------------|--|---|--|--|
| DHL (Jan - Dec 2022) | - 5 %  | + 15%  | -- | -- |
| FedEx (Mar 2022 - Nov 2022) | - 4 %  | + 10%  | - 7 %  | + 12%  |
| UPS (Jan - Dec 2022) | - 3 %  | + 9%  | - 4%  | + 13%  |
| SF Express (Jan - Dec 2022) | -- | -- | + 2%  | + 5%  |

Source: Analysis of company financials, UPS domestic volumes exclude Ground, SF domestic volumes do not. For UPS and FedEx domestic represents US, for SF Express, domestic represents China. As at 30 Jan 2023

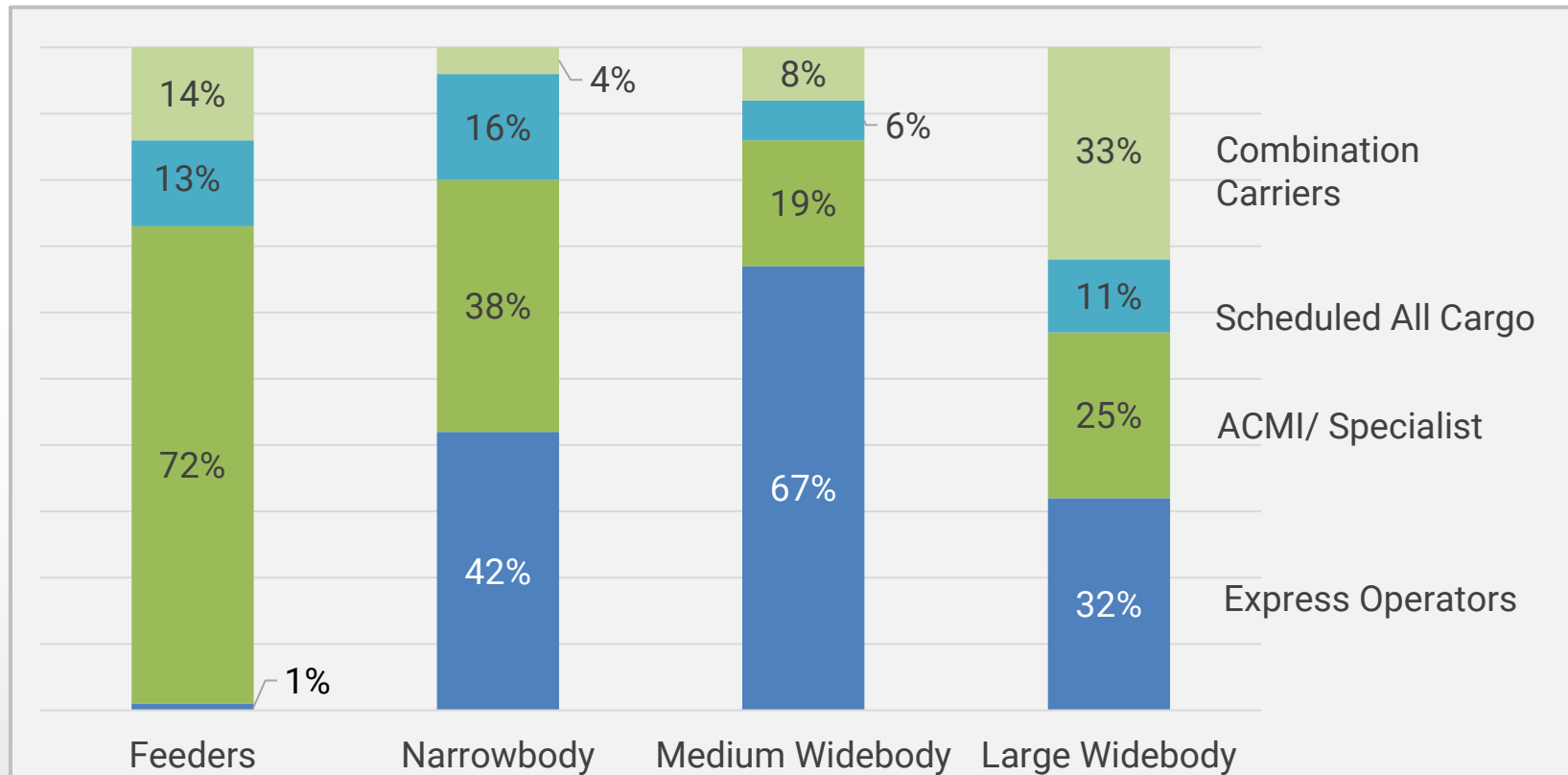
The share of B2C shipments in 2022 stood at about 60% of all shipment volumes vs. 50% in 2019. The return of B2B activity had an impact on the 2022 figures.

Express Carrier Share of B2C vs Share of Shipments Carried by Air 2022



The operator mix varies substantially across segments. The large widebody segment is home to a diverse set of operators, but everything else is all about express.

Freighter Fleet by Carrier Business Model

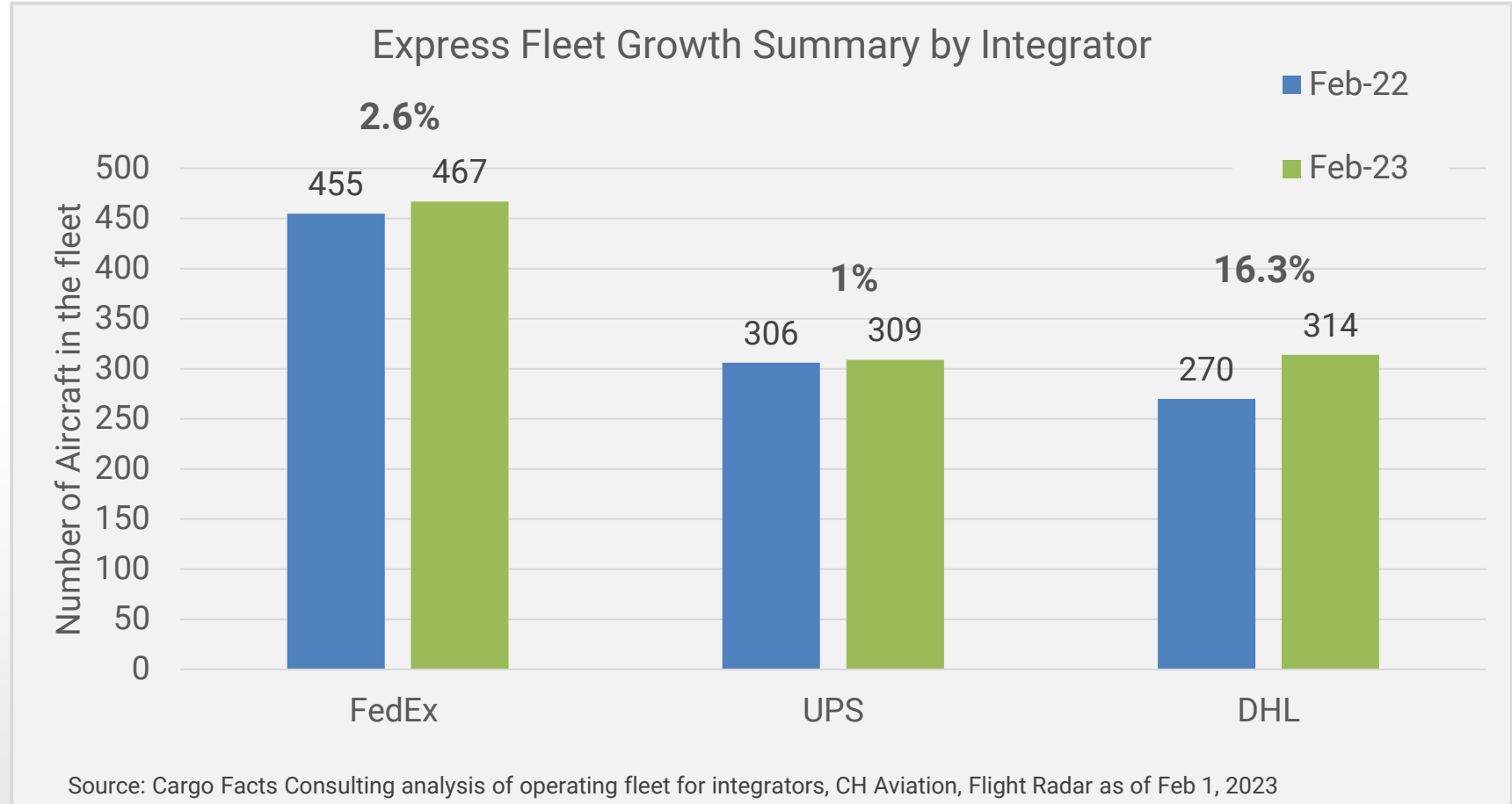


Source: Cargo Facts Consulting analysis of fleet and utilisation data, as of Q1 2023

Two thirds of the world's freighter fleet are operated by or on behalf of 5 companies – FedEx, UPS, DHL, Amazon and SF Express.

DHL Express has remained steadfast in its commitment to growing its fleet, increasing its freighter fleet by 16%.

DHL's fleet operations would be best defined as an outsourced hub-and-spoke system managed by its global partners offering various services such as ad-hoc charters, ACMI, CMI, dry lease and joint venture airline agreements.



What is ahead

- The express market may not see the same level of growth in 2023 as the past two years
- Average age of the express fleet will continue to decrease
- We expect an increasing number of A321Fs and 737-800Fs flying in express service



- Adding new 777Fs and 767-300Fs and retiring its MD-10-30F fleet by end of May 2023

- Continues to expand ACMI and CMI opportunities

- Taking delivery of its newly ordered 767-300Fs in 2023

Source: Company Reports

The Challenge of Growth & Profits - A Tale of Two Companies

Jumia, the pan African e-commerce platform has been a success story in terms of growth, but not profitability.

2022 Performance (through Q3):

- GMV: EUR 1b (+5%)
- Active users: 5.5m (+21%)
- Active sellers: 110,000 (+36%)
- 32m shipments (+79%)
- Jumia Pay transaction share: 37%
- Jumia Logistics: 90% of shipments

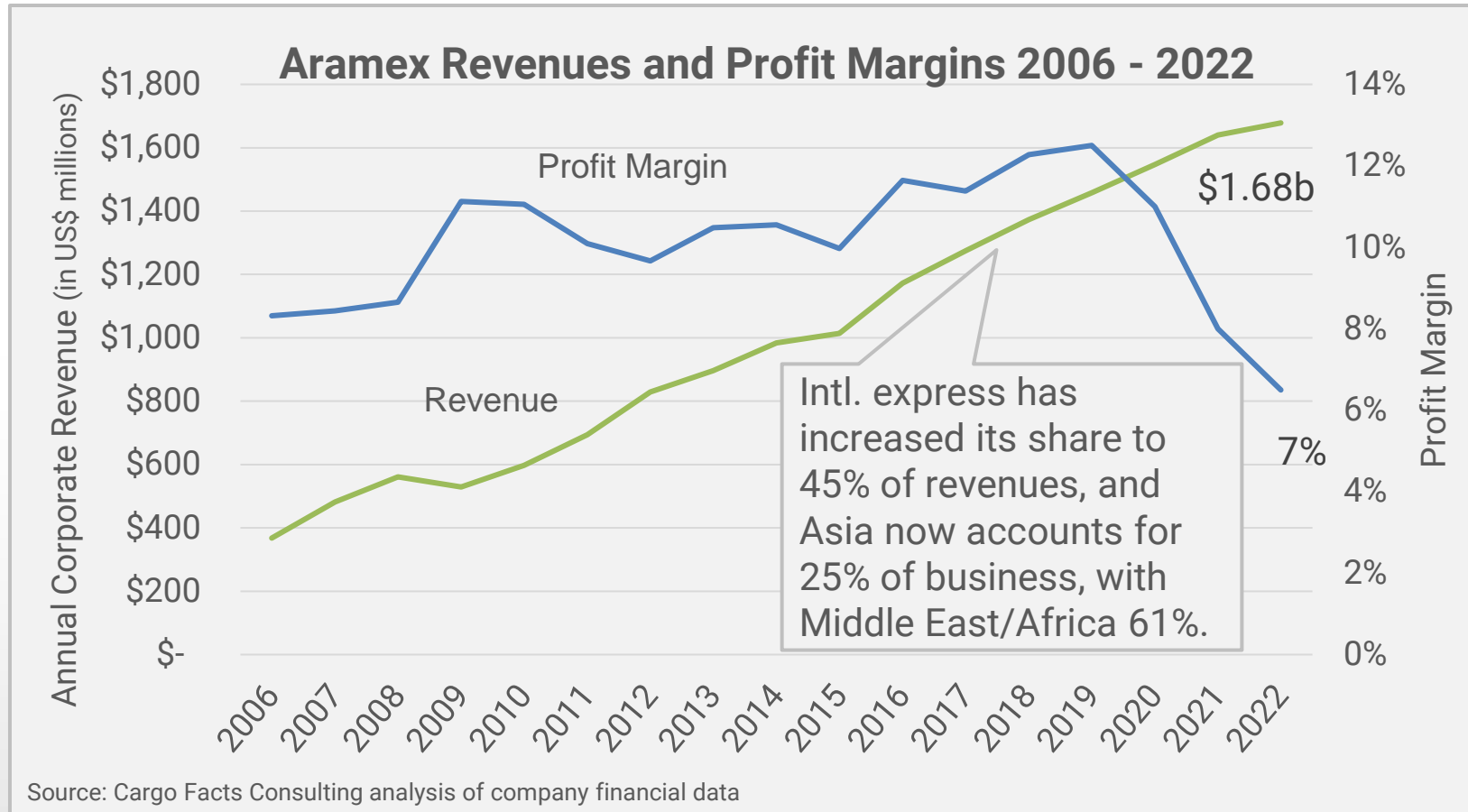


Source: Jumia, Cargo Facts Consulting, as of Q1 2023

However,

- Cumulative losses of over \$1.5 billion so far
- Losses increasing in 2022YTD (+32%)
- Fulfilment costs increasing faster than revenues (+53%).
- Share price reduced by over 50% since Jan 2022
- Shut down operations in Cameroon, Rwanda and Tanzania.

Meanwhile as Aramex has grown its business, its margins have been pressured. Asset light for now but further growth may need dedicated air.



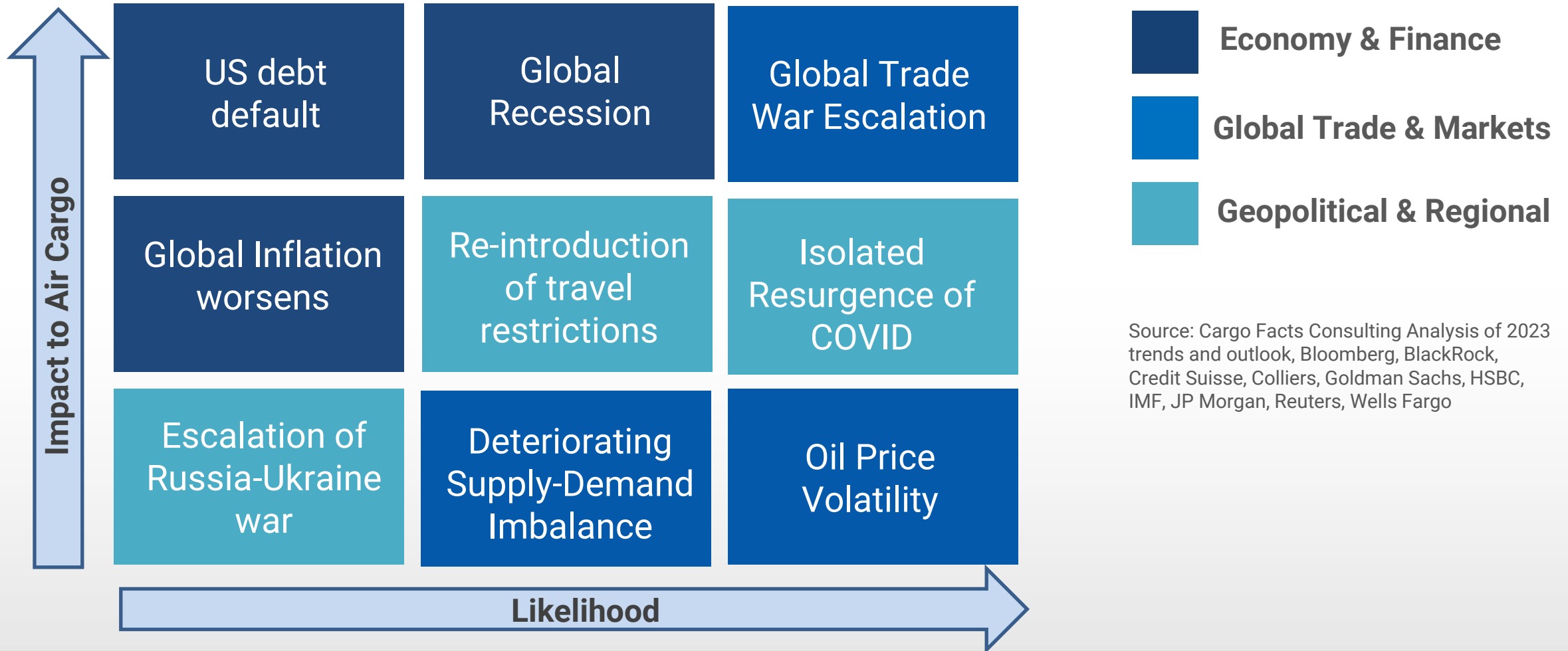
2022 Performance

- Total Revenues: +5%
- Express: +7%
- Freight Forwarding: -2%
- Domestic Express: -1%

Profit Margin: -3%

2023 Air Cargo Outlook

2023 Global Risk Outlook: expect a challenging year for the air cargo industry



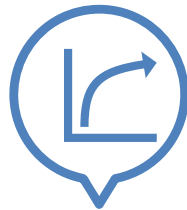
Air cargo players must be ready to face challenges ahead in a softening market.



CARGO KPIs DOWN

Global air cargo volumes (-5%), revenues (-23%) and yields (-20%) to decline.

Soft outlook for global macroeconomy and international trade.



MARKET NORMALIZATION

Normalizing market in sight after three years of unusual activity.

Dynamic and volatile industry requires flexibility.



ELEVATED FREIGHTER DELIVERIES

Another year of high number of converted and production freighter deliveries.

Recovery of belly capacity will put downward pressure on yields.



OPPORTUNITIES?

Specialized cargo, e-commerce (cross-border)

Upside risks: end of Russia-Ukraine war, rebound of consumer confidence, spending, investment, intl. trade.

In Sum...

Conclusions

- Consumption of digital services remains strong three years after the pandemic started, a trend that will likely continue over the next years but at a slower pace (10% in 2023).
- As traditional high e-commerce penetration markets reach a saturation point, the focus will shift to markets in other parts of Asia, Latin America and the Middle East, with higher growth rates (+15%).
- Shipping costs continue to grow faster than revenues. This is not a good development from an operational efficiency standpoint, and it likely puts future pressure on cutting costs.
- 2023 Air Cargo Outlook is optimistic, but with market normalizing and additional capacity, volumes will decline (-5%) and yields will follow a downward trend (-20%).

Exclusive analysis, updates, dashboards and interactive maps

Latest in Analysis



AIRCRAFT

FedEx SkyCourier deliveries ahead of schedule



AIR CARGO

2023: Another challenging year for the air cargo industry



E-COMMERCE

Amazon edges closer to the launch of air network in India



E-COMMERCE

Aramex profits slide 15% amid high operating costs

Analytical Tools

Air Express Map



E-commerce Dashboard



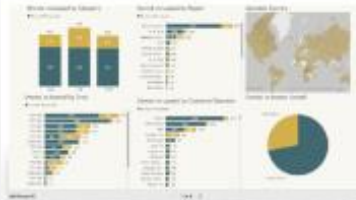
Freighter Forecast Tool



Freighter Feedstock Tool



Lessor Freighter Market Shares



Cargo Traffic and Growth by Airport



Conversion Center Locations



Company Profiles



[Visit www.CFCInsights.com](http://www.CFCInsights.com)

cargo facts 
CONSULTING

www.CargoFactsConsulting.com
