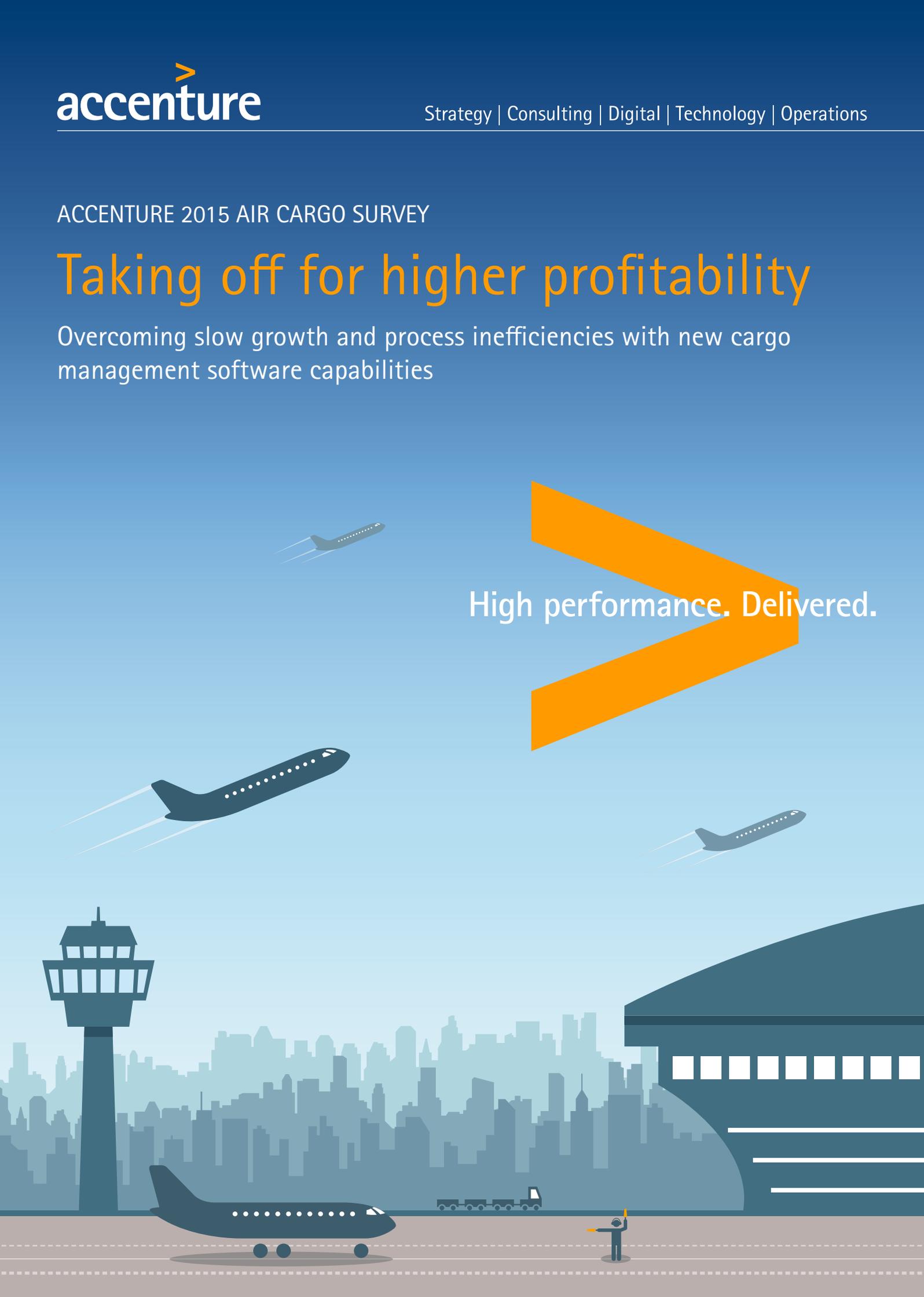ACCENTURE 2015 AIR CARGO SURVEY

Taking off for higher profitability
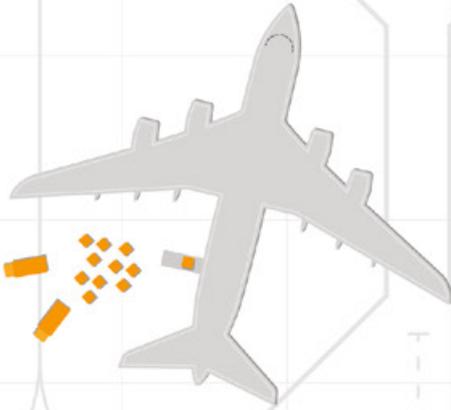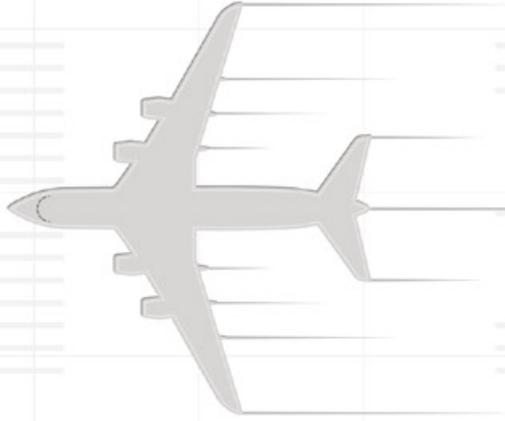
Overcoming slow growth and process inefficiencies with new cargo management software capabilities

High performance. Delivered.

EXECUTIVE SUMMARY

Optimizing revenues in a demanding marketplace

The air cargo industry is under pressure. Although ongoing economic recovery has driven an increase in global freight volumes, average growth in ocean trade has significantly outstripped air trade. According to recent figures from the International Air Transport Association (IATA)[1] while capacity continued to expand, air carriers in most regions have experienced weak growth or even contractions over the past year.

Accenture's 2015 Air Cargo Survey underlines the challenges facing this sector. In their drive towards increased profitability, carriers are continuing to struggle with slow growth and process inefficiencies, while increasing their focus on pricing and capacity utilization. Our research confirms that cargo carriers want and need better tools to help optimize revenues: only one in four cargo executives feel that they're able to optimize revenue for their business, and half of all air cargo companies are actively seeking better pricing and reservations software to improve real-time visibility into utilization and price integrity across the quote-to-cash cycle.

In a marketplace where increased competition and slowing growth are the norm, carriers are intent on securing every possible dollar of revenue by taking other costs out of the business. This is corroborated by our research findings, which point consistently to a growing adoption of cloud-based Software-as-a-Service (SaaS) solutions across the industry: 71% of air cargo executives would consider SaaS to lower overall costs, improve business agility and speed deployment.

RECOGNIZING THE CHALLENGES

Focused on process efficiency, growth and profitability

Carriers face a two-pronged challenge—how to increase growth and reduce costs?

Operational inefficiencies continue to punish the bottom line. And revenue growth is impeded by volume growth that remains in the low single digits (having flat-lined for four years).

Our research shows the industry is taking steps to address these issues. Over half the cargo executives surveyed said operational efficiency and capacity utilization are amongst the top operational problems that they are now trying to address (see Figure 1), with capacity utilization representing a particular challenge for medium/large carriers. More than half identify process inefficiencies amongst their top-three challenges and complex legacy systems continue to pose a problem for 39% of the organizations we interviewed.

There's much to be done. And because there's limited flexibility to change capacity and/or increase their customer base, the emphasis for most carriers is on revenue optimization. For the moment, our survey indicates that capabilities in this area are falling short. Just one in four cargo executives feel equipped to effectively optimize revenues for their business. They acknowledge that they need better tools to do so. Close to 50% of carriers are looking to improve their capabilities around pricing and operations in the next 12-24 months. And nearly 40% point to process automation and improving software tools as twin priorities over the same period (see Figure 2).

Although challenging conditions in the air cargo marketplace look set to continue, carriers have an exciting opportunity to boost growth and profitability by focusing on some key levers identified by our research. We look at these in the following sections.

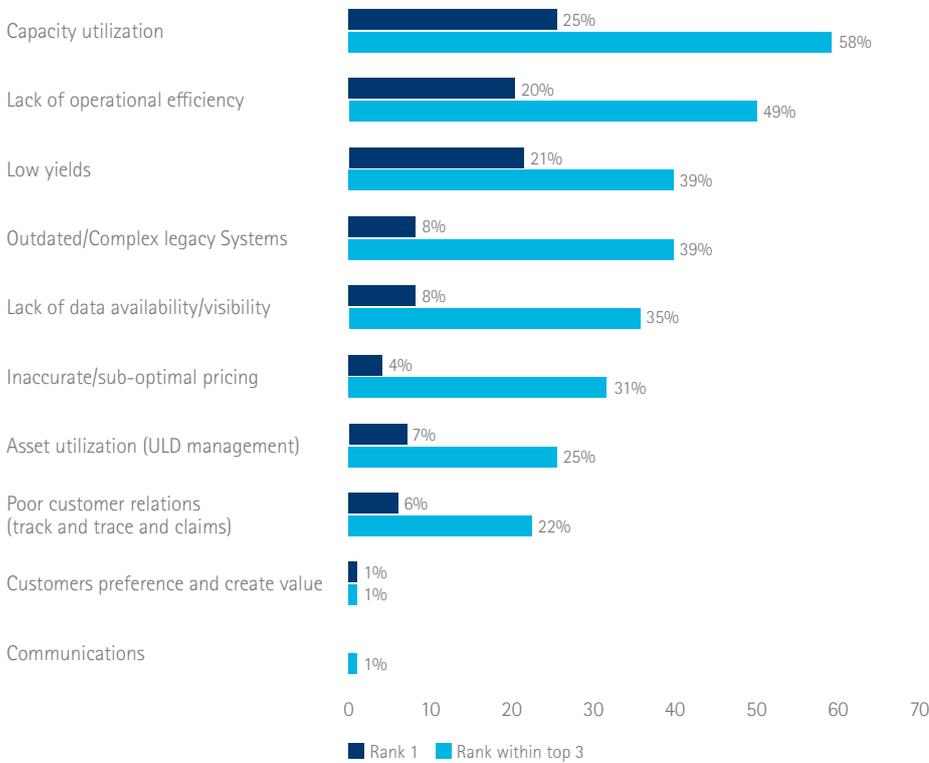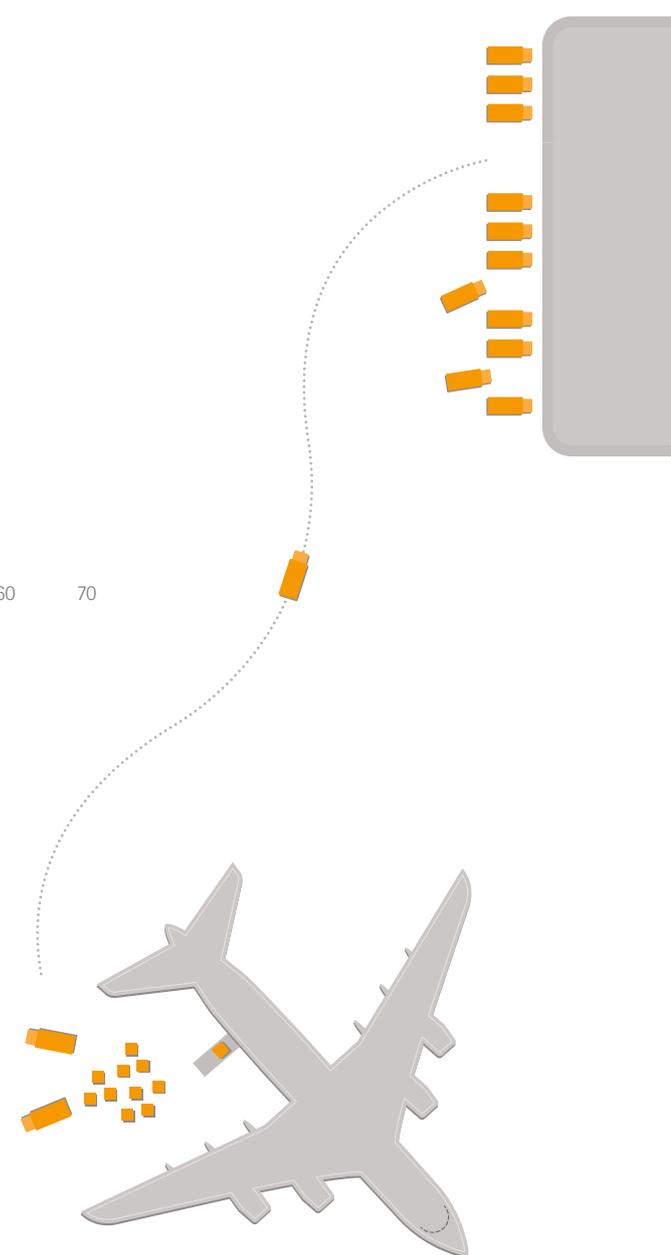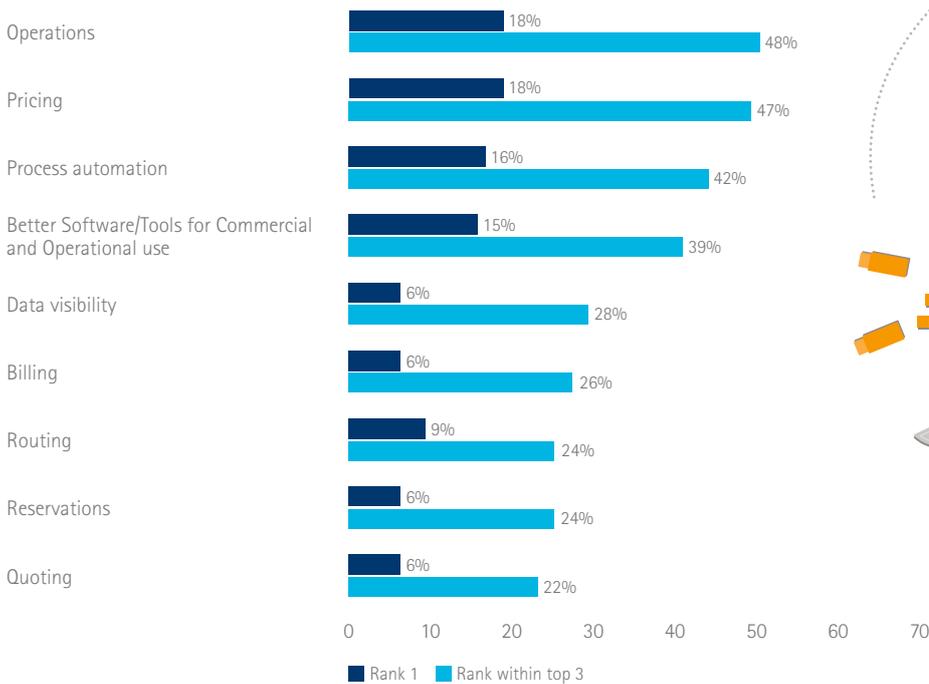## Figure 1: The top operational problems facing air cargo carriers today

	Rank 1	Rank within top 3
Capacity utilization	25%	58%
Lack of operational efficiency	20%	49%
Low yields	21%	39%
Outdated/Complex legacy Systems	8%	39%
Lack of data availability/visibility	8%	35%
Inaccurate/sub-optimal pricing	4%	31%
Asset utilization (ULD management)	7%	25%
Poor customer relations (track and trace and claims)	6%	22%
Customers preference and create value	1%	1%
Communications		1%

0 10 20 30 40 50 60 70

■ Rank 1 ■ Rank within top 3

Figure 2: Top-three capabilities for improvement in next 12–24 months

	Rank 1	Rank within top 3
Operations	18%	48%
Pricing	18%	47%
Process automation	16%	42%
Better Software/Tools for Commercial and Operational use	15%	39%
Data visibility	6%	28%
Billing	6%	26%
Routing	9%	24%
Reservations	6%	24%
Quoting	6%	22%

0 10 20 30 40 50 60 70

■ Rank 1 ■ Rank within top 3

REVENUE LEAKAGE

How can carriers claw back lost revenues?

Process inefficiencies create fertile ground for revenue leakage (the inability to capture/optimize revenues).

There are various reasons why these are so prevalent. Although air cargo carriers have long struggled to introduce stronger and more agile IT capabilities, they've been hampered by legacy systems. Additional problems have been created by industry consolidation through M&A. The complexities introduced by the integration of multiple software and business information systems have engendered inconsistency, inefficiency and lack of visibility into real-time information across the freight lifecycle.

Our research confirms that revenue leakage is a significant problem for the air cargo industry. 75% of our respondents experience issues in this area. So what are the causes? Asked which factors present barriers to optimizing revenue (see Figure 3), over 50% of air cargo executives point to problems with pricing integrity/consistency. Errors in booking, and data inaccuracy are also identified as signified culprits by almost half the respondents to our survey.

So how can revenue leakage be prevented? Our respondents pointed to three standout improvements (see Figure 4) to address issues in this area: optimizing assets/capacity, achieving more accurate/more consistent pricing and ensuring greater accuracy of booked volumes/weights.
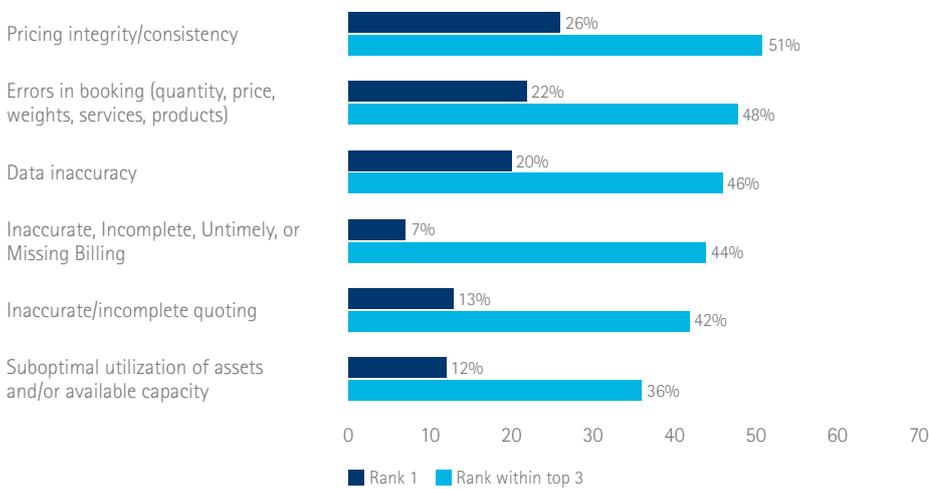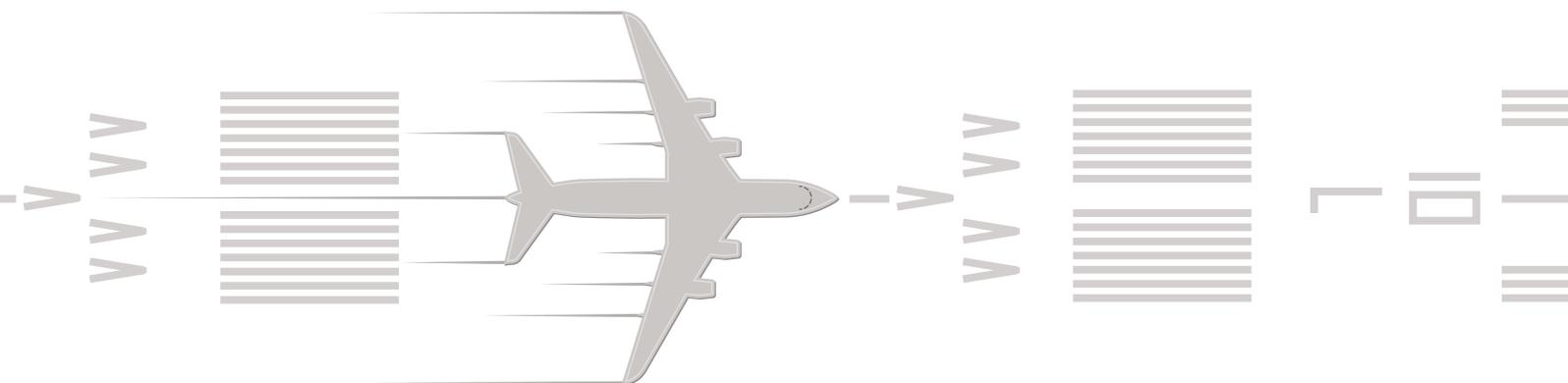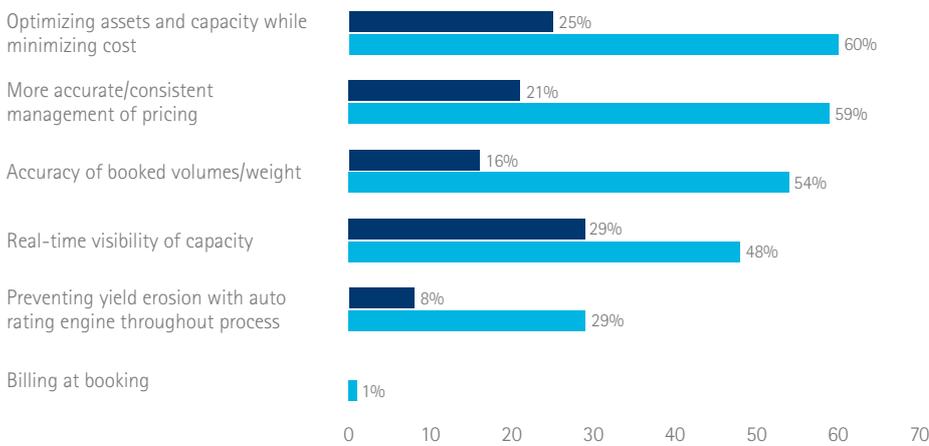
Figure 3: Factors contributing to revenue leakage

Factor	Rank 1	Rank within top 3
Pricing integrity/consistency	26%	51%
Errors in booking (quantity, price, weights, services, products)	22%	48%
Data inaccuracy	20%	46%
Inaccurate, Incomplete, Untimely, or Missing Billing	7%	44%
Inaccurate/incomplete quoting	13%	42%
Suboptimal utilization of assets and/or available capacity	12%	36%

■ Rank 1 ■ Rank within top 3

Figure 4: Improvements to positively impact revenue optimization

Improvement	Rank 1	Rank within top 3
Optimizing assets and capacity while minimizing cost	25%	60%
More accurate/consistent management of pricing	21%	59%
Accuracy of booked volumes/weight	16%	54%
Real-time visibility of capacity	29%	48%
Preventing yield erosion with auto rating engine throughout process	8%	29%
Billing at booking		1%

CARGO PRICING

Our research shows that carriers are struggling to maintain price integrity

Inaccurate and inconsistent pricing is one of the principal causes of revenue leakage across the industry.

Inaccurate and inconsistent pricing is one of the principal causes of revenue leakage across the industry. Nearly half of all organizations are seeking to improve their pricing capabilities. Almost one in five list this as their top priority for improvement.

Even today, many carriers still use spreadsheets to manage rates and charges. This often creates rate discrepancies with forwarders and direct shippers. Additional challenges arise from a lack of visibility into market rates and de-centralized control of sales operations. This can lead to quotes being

Lack of pricing flexibility is a major issue for carriers. Only one in four can adjust rates across six or more factors, including market, product, commodity, ULD (unit load device), weight/volume, and market fluctuations.

offered with lengthy validation periods that prevent carriers from accepting shipments at more competitive rates. Further issues could arise from a lack of visibility into available space and granted allocations on individual flights.

Our research highlights the extent to which carriers struggle to maintain price integrity across the entire quote-to-cash cycle (just 16% claim to be able to do so). System-level issues contribute to many of the difficulties in this area (see Figure 5): missing information such as cargo details at the time of bookingis the principal cause (cited by 61% of respondents); missing or inaccurate services are another major factors (cited by 37% of respondents).

Limited visibility into important information can create problems at every stage of the quote-to-cash cycle. These include undercutting rates through lack of insight into previous "won or lost" business, stations from the same carrier bidding against each other, or customer service staff failing to quote optimized rates because they lack insight into booking profiles on specific routes.

It's a well-acknowledged problem throughout the industry. Just 14% of air cargo executives indicate that their current pricing systems allow them to easily create and manage competitive rates. Although pricing software solutions

are now widely available to simplify and accelerate the offer process, while driving centralized accountability, traceability and consistency in the application of rates, few carriers seem to be taking advantage of them. This is despite the fact that the majority of companies seem to be dissatisfied with their current pricing software. Just 21% of respondents indicate that their current cargo software enables them to significantly maximize profitability (see Figure 6).

Lack of pricing flexibility is a major issue for carriers. Only one in four can adjust rates across six or more factors, including market, product, commodity, ULD (unit load device), weight/volume, and market fluctuations. And almost 60% (see Figure 7) believe that rate calculation inconsistencies are the top contributor to invoice errors, a major source of customer dissatisfaction and revenue leakage. Invoice errors reach high levels for one-third of carriers in our survey (7% report annual invoice error rates over 10%, and 27% report annual error rates of 6-10%).

Because pricing issues are such key contributors to revenue leakage, cargo companies need and want to modernize their cargo pricing software. With advanced pricing capabilities available in the market, cargo carriers that focus on implementing the right tools will fast-track to better yields.
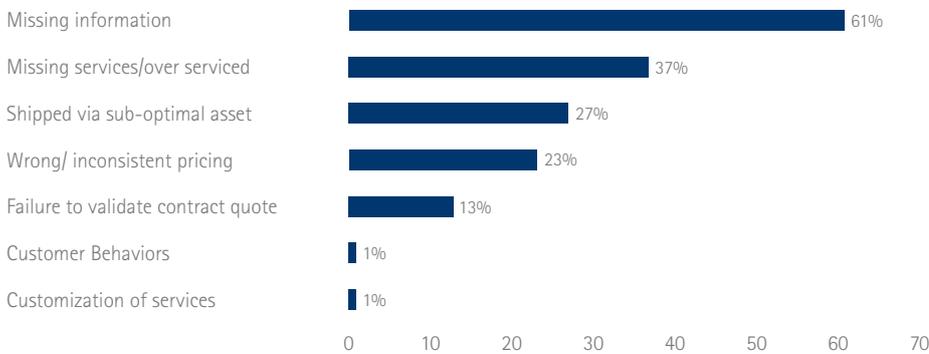
Figure 5: Challenges to maintaining price integrity

Missing information	61%
Missing services/over serviced	37%
Shipped via sub-optimal asset	27%
Wrong/ inconsistent pricing	23%
Failure to validate contract quote	13%
Customer Behaviors	1%
Customization of services	1%

0 10 20 30 40 50 60 70

Figure 6: Problems with current cargo software

To what extent do you believe your current cargo software enables you to maximize profitability?

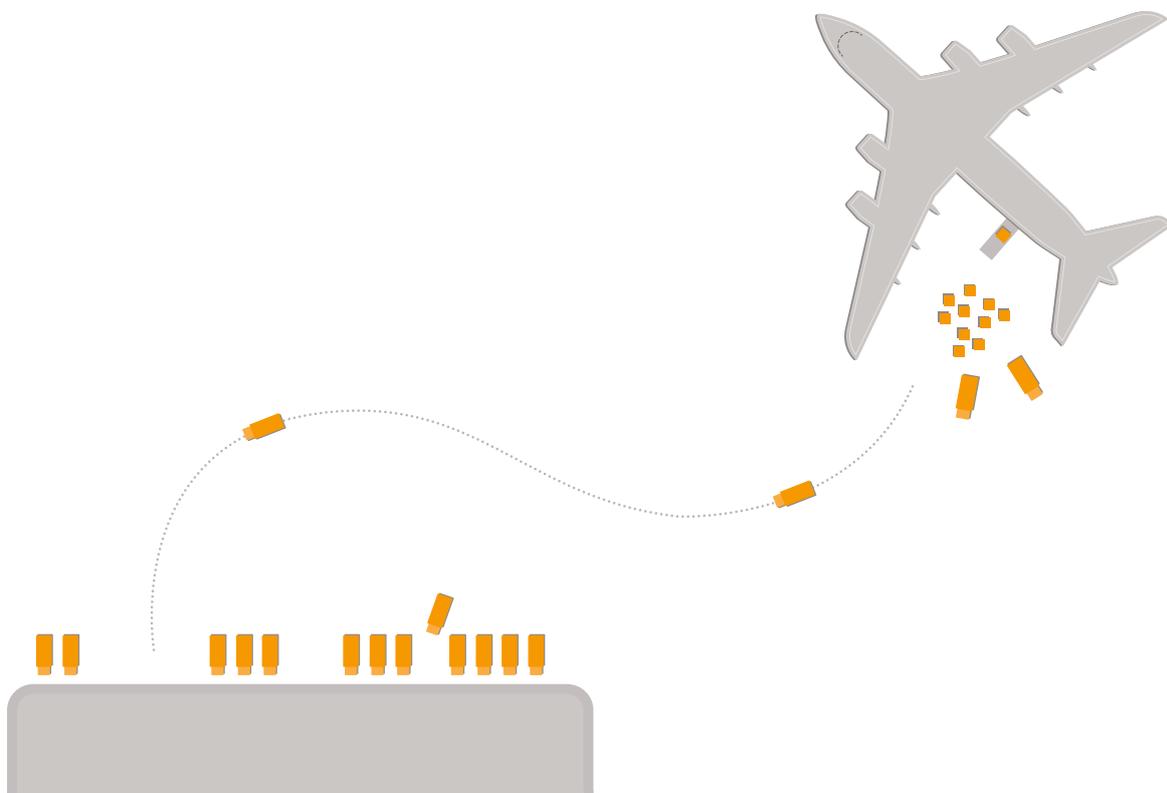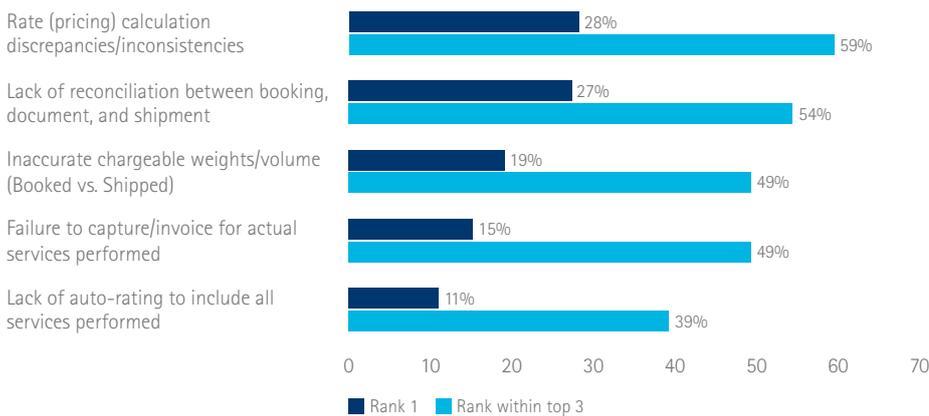|	
21%	To a great extent
60%	To a moderate extent
14%	To a small extent
5%	Not at all
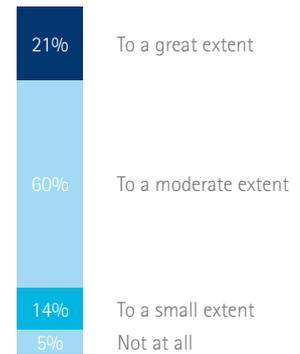
Figure 7: Invoice error rates driven by pricing discrepancies/inconsistencies

Which of the following do you believe contributes the most to invoicing errors?

	Rank 1	Rank within top 3
Rate (pricing) calculation discrepancies/inconsistencies	28%	59%
Lack of reconciliation between booking, document, and shipment	27%	54%
Inaccurate chargeable weights/volume (Booked vs. Shipped)	19%	49%
Failure to capture/invoice for actual services performed	15%	49%
Lack of auto-rating to include all services performed	11%	39%

0 10 20 30 40 50 60 70

■ Rank 1 ■ Rank within top 3

CAPACITY UTILIZATION

Limited end-to-end insight is creating serious revenue leakage

Lack of visibility does not just create problems for pricing. For many air cargo carriers, limited insight into capacity utilization can result in serious revenue leakage through a number of causes.

These include unnecessarily shipping low-yielding freight on in-demand routes to under-utilized allocations, driving load factors below par. The same lack of visibility and centralized accountability often also results in carriers being unable to respond to shipment disruption. Expensive and avoidable claims, customer dissatisfaction, and lost capacity are the result.

High capacity utilization is considered to be a key contributor to higher profitability. And while our research shows that executives have relatively high visibility into utilization at each key stage of the shipping lifecycle, only 54% have end-to-end visibility across every stage – from Quoting and Booking to Acceptance (see Figure 8).

We found that the current reservation system tool supports configuring capacity limits for 71% of carriers. However, only 38% can set limits by four or more attributes, including aircraft type, weight/volume, market, and positions. This limits opportunities for achieving enhanced capacity utilization and higher profitability.

Innovative reservations software solutions are now available to transform booking and inventory management capabilities. Equipped with these tools, air cargo can obtain breakthrough visibility into availability on trade lanes, preventing low-yielding freight from being booked onto valuable space. Other benefits include automatic adjustments to selling rates, with promotion rates attached to low-selling flights and offers removed when thresholds are reached. These solutions can also be used to automatically release allocations to free sale at pre-set intervals before departure, highlight poor utilizations by customers and enable easy decision-making and swift processes for rebooking entire disrupted flights and/or individual bookings.

Figure 8: Limited visibility into end-to-end capacity utilization (% saying yes)

Do you have full real-time visibility into capacity utilization at the point of:
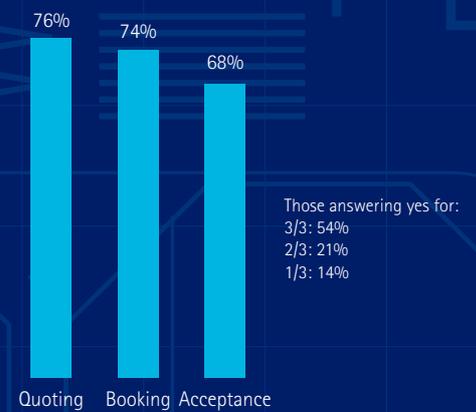
76%   74%   68%

Those answering yes for:
3/3: 54%
2/3: 21%
1/3: 14%

Quoting   Booking   Acceptance

Innovative reservations software solutions are now available to transform booking and inventory management capabilities. Equipped with these tools, air cargo can obtain breakthrough visibility into availability on trade lanes, preventing low-yielding freight from being booked onto valuable space.
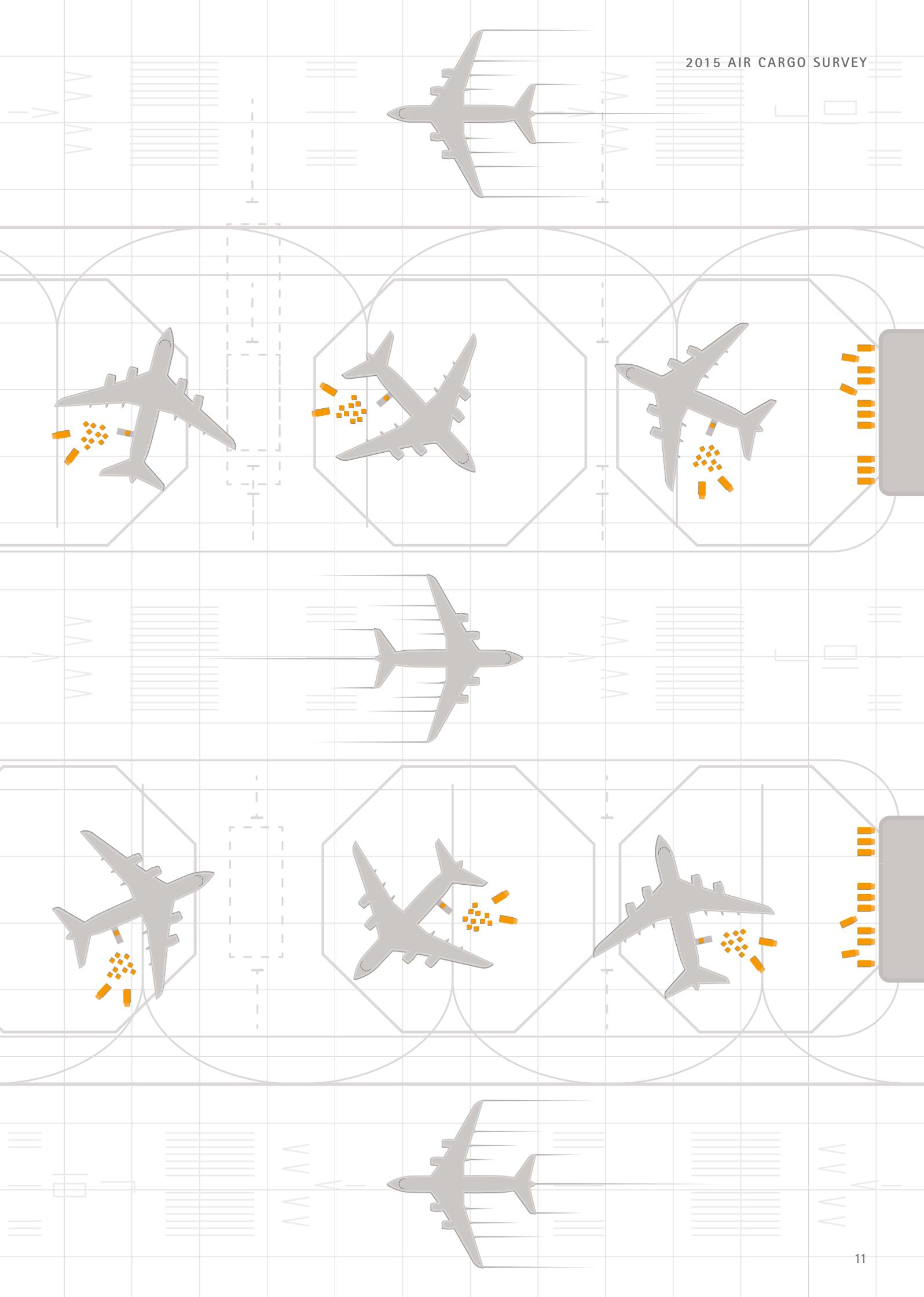
CARGO MANAGEMENT

Mixed success with cargo management software

Sophisticated software solutions are readily available to provide integrated, real-time insights into capacity and allocation.

These play a vital role in preventing revenue leakage. To date, however, the air cargo industry has met with mixed success in its use of cargo management software.

While we're seeing a high degree of automation in booking and routing processes, and enhanced visibility into capacity utilization, carriers are struggling to realize further improvements. Just 21% of air cargo executives in our survey indicate that their current cargo management software enables them to maximize profitability. Only 14%

say their current pricing systems allow them to easily create and manage competitive rates. And just 16% are able to maintain price integrity (auto rating) across the entire quote-to-ship cycle.
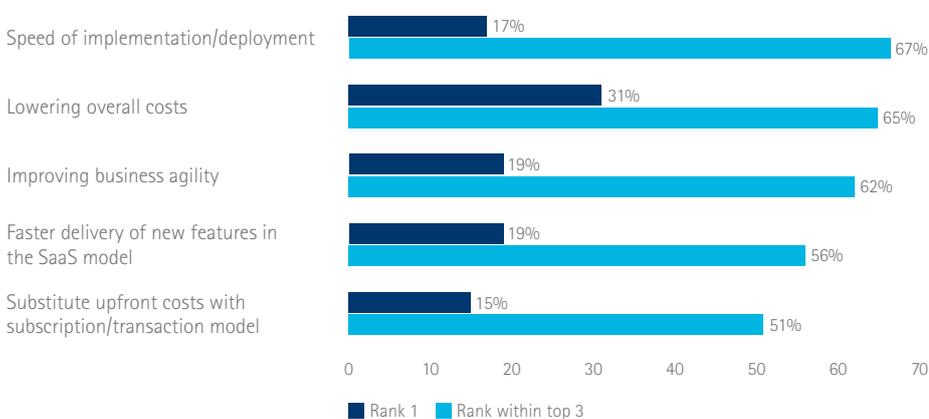
Current air cargo reservations software is mostly unable to handle intelligent allotments and cargo booking. Our research shows that although carriers claim 80% load utilization, their ability to configure capacity, growth and profitability remains relatively limited. For example, just 54% have visibility into capacity utilization across the shipping process (quoting, booking and acceptance).

As they target greater flexibility, improved visibility and high cost efficiency, many carriers are turning to Software-as-a-Service (SaaS) solutions for quicker results. We found that 71% of executives would consider SaaS solutions for cargo management.

Lowering costs is a key driver for SaaS solution adoption (31% of carriers said this was their primary objective). Improving business agility and accelerating implementation/ deployment of new features are also important factors (see Figure 9).

SaaS solutions for cargo management are not just for smaller carriers. While it's true that SaaS can change the game for smaller carriers, empowering them with the software capabilities that used to be the preserve of the biggest players, we're also seeing top-tier carriers turning to SaaS. For these companies, SaaS solutions provide rapid, flexible and efficient access to the newest cargo management capabilities, as well as freeing up hard-pressed IT resources from software and hardware maintenance.

Figure 9: Drivers for considering SaaS solutions

Driver	Rank 1	Rank within top 3
Speed of implementation/deployment	17%	67%
Lowering overall costs	31%	65%
Improving business agility	19%	62%
Faster delivery of new features in the SaaS model	19%	56%
Substitute upfront costs with subscription/transaction model	15%	51%

■ Rank 1 ■ Rank within top 3

CONCLUSION

Air cargo companies face some tough challenges

### New software capabilities can provide the right answers at the right time

Air cargo now transports goods worth over US$6.8 trillion. That's approximately 35% of world trade by value. And the sector itself generates almost US$70 billion every year.[2] It's a hugely important industry. And now it's under mounting pressure to increase profitability in a competitive and increasingly volatile marketplace.

Our research highlights the challenges facing air cargo executives. It also shows how many of the answers to the questions they face can be found in the sophisticated cargo management software solutions that are now available.

By helping to prevent revenue leakage, these solutions create exciting opportunities for boosting growth in a tough operating environment. The results from our research clearly demonstrate the need for better software tools. Indeed, almost half of all carriers are already actively seeking out better pricing and reservation software to provide real-time visibility into utilization and price integrity across the quote-to-cash cycle.

As they do so, many are turning to SaaS cargo management solutions. These are proving to be the right tools at the right time – enabling flexible, agile and cost efficient capabilities for leading companies. As these benefits help to boost profitability for early adopters, we expect to see more carriers taking advantage of the advanced platforms that are now available.

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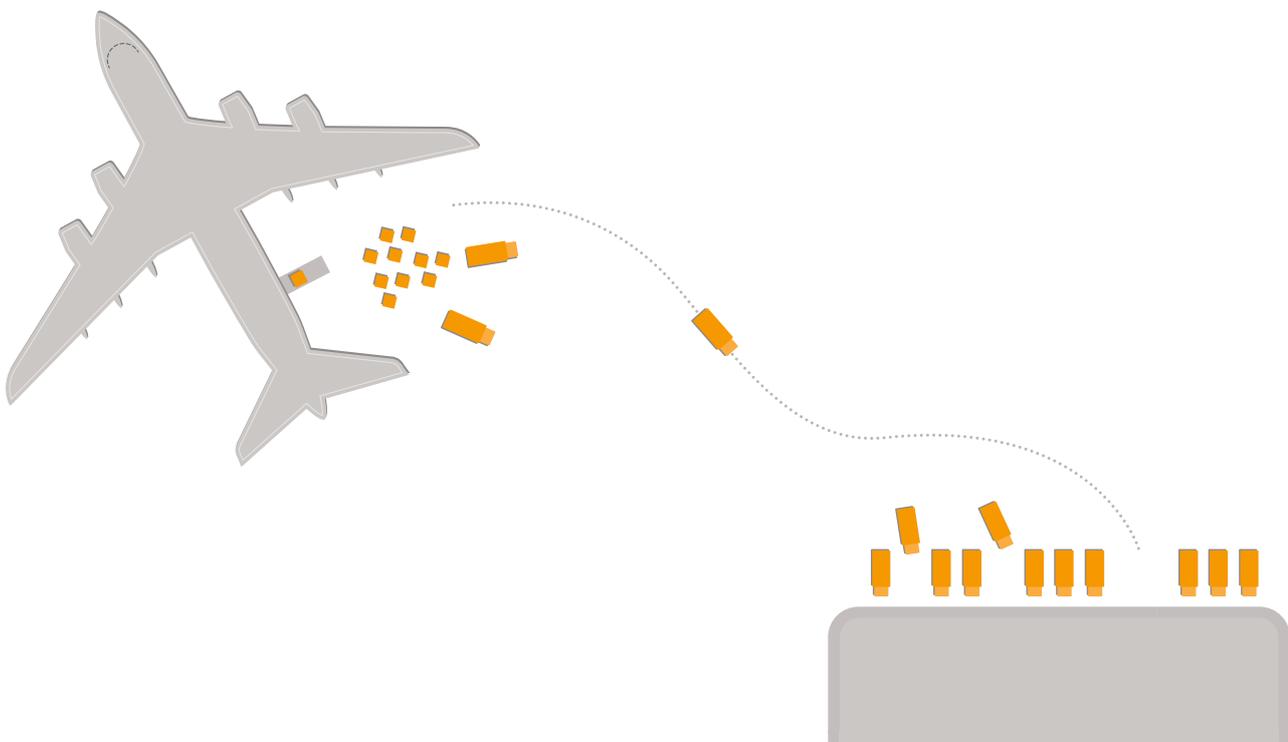
ABOUT THE RESEARCH

# The Accenture 2015 Air Cargo study

The Accenture 2015 Air Cargo study is based on a quantitative, online survey conducted by McGuire Research Services on behalf of Accenture between February and March 2015 among 85 air cargo executives worldwide.

The 85 survey participants came from across the air cargo industry – from airlines and air cargo carriers (scheduled and non-scheduled) to freight air transportation companies.

Respondents came from Europe Middle East & Africa (70%), North America (21%), Asia Pacific (7%) and Latin America (1%).

COMPANY SIZE (BY REVENUE)		
Small ($20M – $200M)	20	24%
Medium ($200M – $1Bn)	29	34%
Large (> $1Bn)	36	42%
Total	85	100%
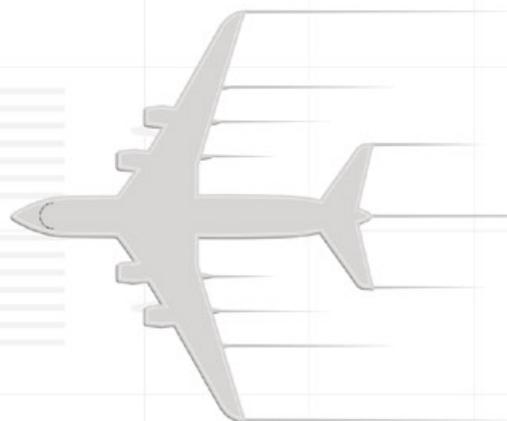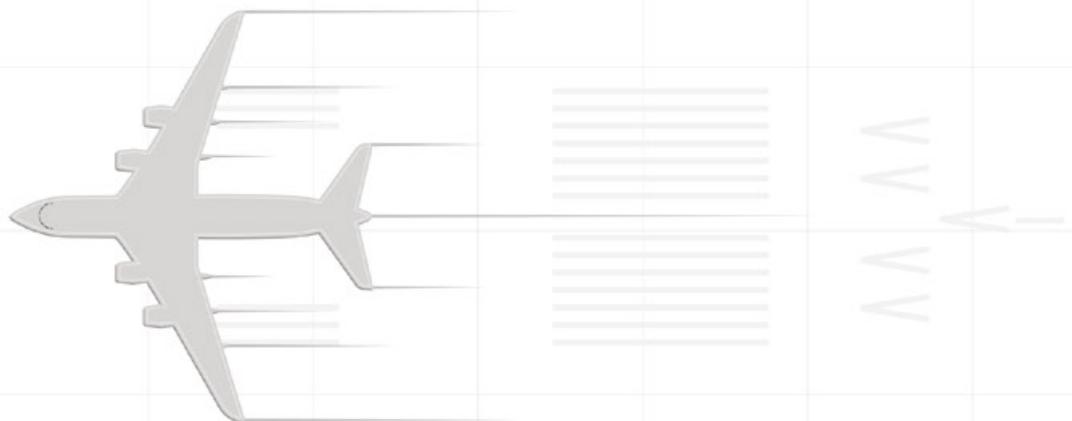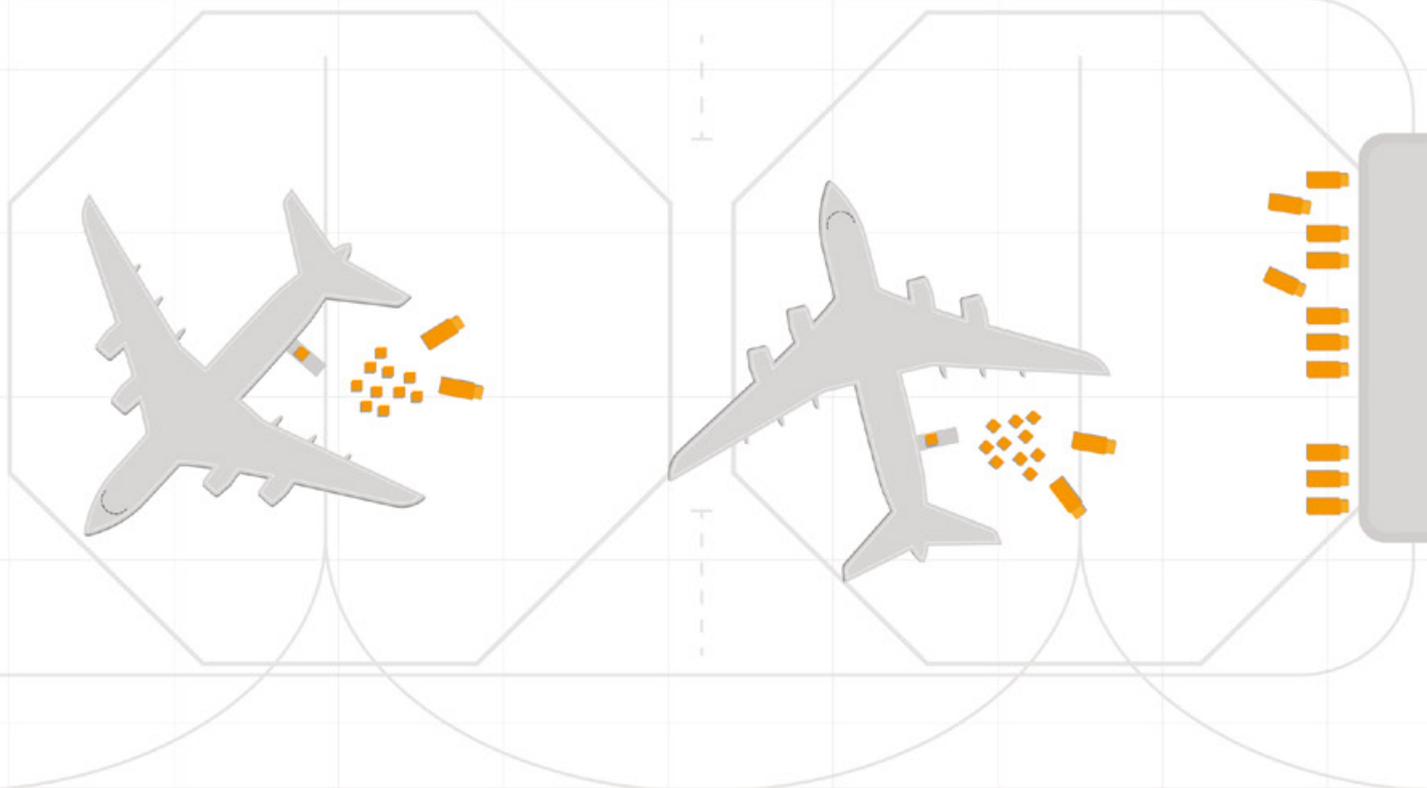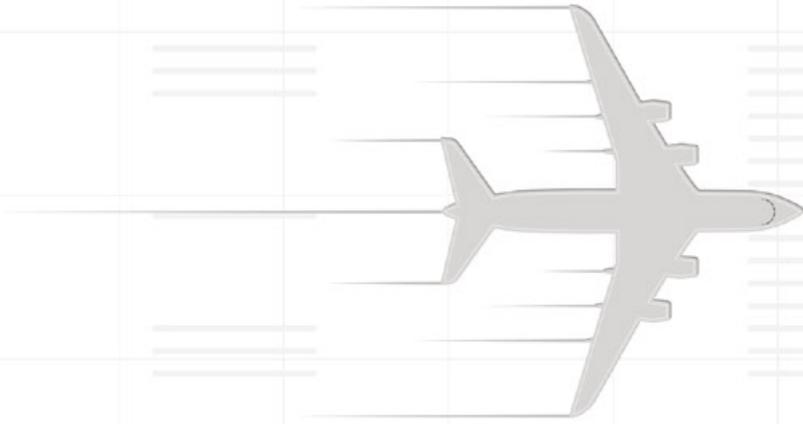
About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with more than 336,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US$30.0 billion for the fiscal year ended Aug. 31, 2014. Its home page is www.accenture.com

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About Accenture Freight and Logistics Software

Accenture Freight and Logistics Software provides end-to-end cargo management solutions that bring agility, efficiency, and precision to freight and logistics operations. To find out more, please visit www.accenture.com/AFLS

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[2] https://www.iata.org/whatwedo/cargo/Pages/index.aspx

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