Agents for change

Accountants have taken over the airline business and are putting their relationships with GSAs under closer scrutiny. But agents with big networks argue that they can offer good economies of scale. **Martin Roebuck** reports

The fact that GSAs usually describe themselves these days as GSSAs reflects a significant evolution in the traditional role of the 'general sales agent'. The GSA today provides its airline partners with a variety of cargo services, from cargo sales in niche markets through to turnkey cargo management.

The trend is still for airlines to appoint GSAs rather than manage their own cargo offices, says John Gilfeather, sales director of ANA Aviation Services. "Apart from the carrier avoiding the fixed cost of running a sales office, GSAs tend to be more dynamic and engaged with the local market."

Those choosing to outsource include the global giants in cargo – it's not just the small narrowbody operators. Etihad reappointed ANA as its UK GSA last year after an initial three-year contract proved to be successful.

German-headquartered ATC Aviation Services looks after Etihad in Germany and Scandinavia, as well as Qatar Airways in Switzerland and Spain – its other main European markets.

The rationale is that a GSA can staff regional offices more cost effectively than an airline operating independently, explains Ingo Zimmer, chief executive officer of ATC. "You can't just be in Frankfurt for Germany, for example, but having a presence in several different locations would cost you a fortune. We represent more than 10 airlines here and can exploit the synergies of that."

ATC employs 25 personnel at its Frankfurt customer service centre and has two or three more stationed at German satellite offices in Munich, Düsseldorf as well as an all new Berlin location which opened last year.

ATC claims it can staff regional offices more cost-effectively than the airlines it works for, such as ANA (photo: ATC)

Left: Dawkins – it's a spot market and GSAs need to be slick *[photo: Air Logistics Group]*

Right: Zimmer – GSAs are investing heavily, but commissions are rock bottom *[photo: ATC]*

Scale and track record is important, Zimmer emphasises. "For a new airline entering the German market, I'm the single point of contact. I have a 25-year relationship with the likes of Schenker and Panalpina. A local GSA representing a small narrowbody operator would probably not get an appointment with them."

Air Logistics Group has a similar philosophy. Despite consolidation at main hubs, cargo continues to originate in multiple locations. "In Germany, 80% of business is at two centres, but you still need people in smaller cities," says Stephen Dawkins, chief operating officer.

Airlines will usually already know the potential size of the cargo market in each originating country – "but they need the organisation to help them maintain market share," Dawkins says. "They are looking for someone who can visit the large forwarder in Munich handling 20-tonne shipments, but also the guy in the Portakabin in Dresden with just 50kg. We might have electronic processes, but people still want to meet people and do business face to face."

Long shopping list

Gilfeather charts a list of factors an airline must consider when selecting a GSA: financial stability; sales structure; product mix; sufficient human resources in each country, coupled with the ability to keep pace with the anticipated growth of the carrier; knowledge of the local market; sales performance and past sales history; management ability (and whether it has relations with agents at all levels); succession planning; overall fit; and communication.

> **"With a market in overcapacity, freight rates represent a small portion of overall revenue and this has a significant effect on the bottom line"**
> **Ian McCool, International Airline Marketing**

"The decision on appointing either a single GSA as a global or regional solution, or a separate GSA for each country, depends on what the carrier is offering to the market and how much resource it has in order to support the GSA.

"A carrier running a weekly freighter from Europe to Africa, for example, can benefit from a GSA that has a European sales and reservations network. This partnership can extend to the GSA taking the financial risk on each flight," Gilfeather comments.

"A passenger carrier that has daily scheduled widebody operations, a cargo team at the hub, plus a strong cargo reservations system may benefit from choosing the right partner in each territory."

Beyond the traditional GSA role, companies with broader expertise offer all kinds of additional services. ANA Aviation has helped carriers lease aircraft and even contributed to negotiating cargo traffic rights in new markets.

Norwegian appointed ANA's North American arm, Network Airline Management, as its cargo GSA prior to launching flights at the start of July from London Gatwick to LA, New York and Fort Lauderdale.

In the same week, Colombian national carrier, Avianca, resumed a Bogotá-Heathrow service 13 years after quitting the UK market, appointing ANA as its GSA in the UK, Ireland and India.

Avianca is flying the London route four times per week using Airbus A330-200 aircraft, which can accommodate 10 tonnes of cargo on the route at full passenger capacity, despite Bogotá's high elevation.

India has become important in this context: its pharmaceutical shippers prefer to serve the growing Latin American market without having to transit via the US, but the country has little direct capacity to Spain.

ANA's knowledge of the India-Europe trade lane also helped cement its relations with Etihad in the UK, Gilfeather adds.

Less room for entrepreneurs?

With a turnover of more than $560 million, Air Logistics claims to be bigger than many in-house cargo departments.

Much attention is focused on data capture, handled by a 10-strong team based in Bulgaria, as well as IT managed from Switzerland. The company has invested $10 million over the last 10 years in its IT.

"It's a spot market and you've got to be slicker," Dawkins says. "The days are gone when you can walk in with a tariff. You have to be quick on your feet to capture whatever revenue is there." ▶

Germany's ATC is GSA for Ethiopian Airlines *(photo: ATC)*

Business is up 6% in Europe so far this year, while Asia – where Air Logistics now has 21 offices, including Australia and New Zealand – has seen 22% growth. The company moved into Hong Kong only five years ago as "serious tenders starting to come out of Asia".

Many carriers in the region that traditionally managed their own sales are now outsourcing, under pressure from the big guns in the Middle East. In particular, low-cost Asian carriers, for which cargo has never been a core product, are also deploying GSAs in search of another income stream.

Bringing private equity in 10 years ago took Air Logistics away from the entrepreneurial approach that characterises many GSAs, bringing it more in line with the risk management approach of airline clients.

Solid financial backing is crucial; a larger GSA may have to put up multimillion-dollar bank guarantees to clients that are understandably cautious about subcontracting a major part of their business. "Airlines are increasingly run by the accounting side of the business and are more sensitive about this," says Dawkins.

At one time, carriers were reluctant to put all their eggs in one basket, "but now they're looking for three or four GSAs globally," he comments. "It's hard to manage 40 or 50 contracts, visiting all the offices and analysing separate CASS [Cargo Account Settlement Systems] data for each country."

Last year, Air Logistics took on Royal Brunei's (RB) entire worldwide air cargo business. The airline's annual uplift is around 18,500 tonnes. A joint venture was set up to manage the business, including ground handling at all stations on the RB network, as well as sales and marketing.

Consolidation is naturally in a GSA's interest because, with commission so much reduced in an era of low base rates and increasing surcharges – on which it doesn't earn – volume is everything.

"Commissions can go no lower," says ATC's Zimmer. "We're investing in our sales force and in IT, but we have to be more productive and stay extremely lean on management.

"This is not like the gold rush of the 1980s and '90s. You have to be careful what you take on – for example, there's no sense representing small narrowbody operators."

Ian McCool, managing director of leading Irish GSA International Airline Marketing, says: "One of the main pressures comes when a contract is commissionable on the freight revenue only, so you get no credit for the surcharge revenue.

"With a market in overcapacity, freight rates represent a small portion of overall revenue, which has a significant effect on the bottom line. There is a trend to move to all-in pricing, driven by basic supply and demand economics, but this is only on some routes and with some carriers."

McCool naturally takes a different view from his rivals on the relative merits of small local service providers and global players. "A multinational GSA may offer some advantages, but most independent GSAs are 100% focused on their own territory and should know their market inside out," he says.

The decision to appoint a GSA is never as simple as cost savings and additional revenue potential, McCool says. "The benefits to a large carrier looking to hit the ground running with a new service are clear, as the GSA will have relationships with all the potential customers, vast amounts of market knowledge, and an established customer service structure.

"It can be the case that a carrier is only looking for such functions to get established and then may review the model to see if outsourcing will still be as cost effective.

"We have always been a full-service provider for our principals, offering sales, marketing, after-sales service, customer service, flight monitoring, handling and trucking," McCool says. "The one-stop shop in a small market is key, it gives the principal the peace of mind that it does not have to get involved in the day-to-day issues, while always giving support to the local markets. CASS has been a wonderful asset to both GSAs and principals alike, as it takes out a lot of the financial risk involved."

Reputation is everything

The agency business operates on the basis of relationships and reputations, so when Air Logistics acquires a well-established GSA, it will sometimes retain the name. "You're bringing airlines the comfort of your global presence and fiscal support, but if the GSA is a powerful local brand with good people then you don't want to lose that," Dawkins says.

"We buy companies for these longstanding relationships," agrees Zimmer. ATC was always clear that it would rebrand Platinum Air Cargo, its US acquisition at the beginning of 2013, but took a year to do so. Platinum came with "an incredible amount of brand equity and goodwill – not just with our airline partners, but with the agents as well," he points out.

The pair who built Platinum's business, founder Don Cochran and his partner Tim Pfeil, have stayed on as regional director North America, and vice president of sales and airline relations respectively. ATC has opened a 10th office in the US and Cochran is now looking at expanding into Canada too.

New business wins in the US include CAL Cargo Air Lines. The Israeli carrier is expanding its JFK operation, which it manages direct, and is planning to launch a new service between Atlanta and its European hub in Liege, Belgium.

ATC has also begun representing Air Astana in the US. The Kazakhstan carrier does not currently fly there, but the GSA moves cargo to Amsterdam and Frankfurt on its behalf. "Some agencies don't like working in this way, but Air Astana has Boeing 787 Dreamliners on order and we take the view that any offline carrier today can be online tomorrow," Zimmer says.

In South America and Africa, where ATC has ambitious plans, Zimmer says client airlines are likely to appoint GSAs that can apply consistent global standards and procedures.

The company is now established in Brazil and Argentina, and will open in three more Latin American markets by the end of this year. Meanwhile it has expanded out of South Africa, setting up in Mozambique, where it now represents regional feeder network operator Airlink; two more African countries will soon follow.

Next year Zimmer will turn his attentions to Asia. "We're only in Hong Kong and India now, and it's not enough," he says.

Despite ATC's increasing geographical spread, the company is concentrating on core GSA activity. "We offer all the services a normal cargo department would. If someone needs document handling, we can do it, while through our sister company, WTS, we can offer truck brokerage to bring down cost. However, we wouldn't get involved in physical cargo handling," states Zimmer.

Shared risk, mutual reward

A minimum three-year contract is essential if the GSA is to become a genuine part of the principal's business, Gilfeather says. Constant engagement with the freight forwarding community is a given, but communication with the airline hub, ramp and passenger teams is critical to ensure that the potential cargo revenue is maximised on each flight.

"I have had several conversations with captains of flights where they have altered their flight plans or baggage allocation to allow more cargo to be accepted," he says.

Carriers are conscious of the risks GSAs undertake and are happy to discuss longer-term relationships. However, as with any business transaction, there are short-term release clauses, and Dawkins does admit to receiving more RFPs than five years ago.

The seemingly reduced role for freighter aircraft in the future suggests to Dawkins that there may be scope for airlines, GSAs and forwarders to work in partnership. This approach would mean that the risk on some trade lanes could be shared, to the benefit of all involved. ■