



White Paper Number 2

May 2015

Where Air Cargo Needs to Go Next: *An Interview with Des Vertannes, a True Expert*



Introduction

Des Vertannes has spent his entire working life, more than 40 years, in air cargo. But to Des, what matters more than long tenure is what he has learned along the way – his insights for making things better for our industry. Those who know him – and he is widely known and hugely respected in air cargo – always note his positive energy directed at the goal of improving the business. After a long career in air cargo management, which included stints at a predecessor to British Airways, Air Canada, and Etihad Airways, and most recently four years as head of cargo at IATA, Des agreed to join SmartKargo as a strategic adviser.

We caught up with Des recently to get some of his perspectives on air cargo, and ways that advances in information technology can help move air cargo forward.

How did you land in air cargo?

First of all, no one plans to enter the air cargo business. About 99% of us just fall into it, and I was one of those. I planned to become a teacher, but as the oldest of 10 children, my father thought that earning money sooner, rather than three years later, made more sense. I somehow got an interview with BEA, British European Airways, and next thing I knew I was working for their air cargo unit at London Heathrow, helping fill the bellies of their Tridents, BAC-111s, Viscounts, and even dedicated Vanguard freighters called Merchantmen – planes barely recognized today.

Let's start with a broad view: what are the three biggest challenges air cargo faces?

Security, barriers to open trade in goods, and the rise in eCommerce. The first two are solely challenges, some might say threats, and the last is both threat and remarkable opportunity. The focus on security has been with us for decades, but became much sharper after 9/11 and

other incidents. I have never been one to try to push back against governments and other organizations promulgating new rules and regulations for air cargo. Of course those actions drive workload at carriers and their partners in the cargo chain, but opposing them is futile. We need a more nuanced and collaborative approach. There's not much to say about tariffs and other barriers to trade in goods, whether manufactured products, high tech material, or agricultural products – we all agree that increasing government protectionism harms world trade and hence our industry.

The dramatic growth of eCommerce is driven by evolving consumer behavior. People like to buy things online because it's convenient, price and feature comparisons are easy, and above all it's fast. Universally, middle-class families are busy, and Internet shopping gives them back precious time. In order to meet this growing – and to me irreversible – trend, air cargo people need to learn to adapt more quickly. Historically, we've not been good at change, and especially not at fast change.

How can advancing information technology help address these three challenges?

Good question. The whole reason I got interested in cargo IT was to facilitate the fast and efficient transfer of information to all who used it. Whoever needs the data should get the data. But that doesn't happen much today. There are all kinds of blockages, often for selfish reasons that are not clearly thought out – “it's mine” is something a 3-year-old says. And even when key information does transfer, it gets distorted. Sometimes governments impose these barriers, but often it's us and the people we've hired to design our software and systems. Traditional air cargo IT providers see a wholesale solution, that is, airport to airport, rather than a more comprehensive, and essential, retail solution, from shipper to consignee. Integrators like FedEx and DHL figured this out decades ago, and it's no wonder they've prospered ever since. Air cargo needs to understand this.

Another thing that I learned in looking at air cargo IT was that the decision to develop a system in house is in most cases not the right move. Time and time again, I saw the “make or buy” decision go in the wrong direction. The temptation to develop internally is often

strong – “we know our business better – but then things go off track, and budget and elapsed time overrun predictions and promises. Moreover, airlines get a system that is almost always behind the curve in technology. It makes much more sense to contract with a proven system built for the future, not the past.

If I may return to an earlier point, it does no good for the industry to push back against government rules. We’ve got to comply, which means we’ve got to sort out how to provide all the information, at the right time, to anyone who truly needs to know. Airlines are responsible for providing the information, but they don’t have it. So we need a platform that can make that happen. One of the many great things about SmartKargo is that it can deliver the information in any format, to any standard, unlike many older systems that are so rigid. Flexibility always wins the day.

Turning to a specific, you’ve been a strong advocate for getting rid of paper for many years? What’s wrong with paper?

Air cargo providers move goods from point A to point B with a service promise. They didn’t agree to move a whole bunch of paper along with the shipment, and using a separate transport process. We’re paid to move goods, not paper. In ocean freight, the carrier has no obligation to move the paper (and, curiously, it moves by air, not sea!). We have to move the paper, and often we actually lose the paper. And when we lose the paper, we can’t deliver the box. When I make it that simple, people get it. But that’s really how easy it is. We haven’t moved to paper because a lot of us are stuck with legacy systems that must print – they can’t go electronic.

If we want to see what paperless can do, we need only ask our colleagues across the aisle on the passenger side. The rise of e-tickets transformed distribution, lowered costs, improved visibility and transparency, and more. It’s a no-brainer, as the Americans say.

In your last years at IATA, you said some things about the need for culture change, for example at the 2014 CNS meeting; can you remind us of what you mean?

I was asking the industry why we are so slow to embrace the things we know we need to change. Everyone is looking at someone else, perhaps IATA, to effect the change, but an industry association can't do that. Only its members and others in the business can do that. We need leadership, we need responsibility, and we need people to take ownership. We do need culture change. Air cargo is stuck in old ways. They worked back then, but no longer do. For example, the old collegial way, that you can call your counterpart at another airline and they will get it sorted, well, that doesn't work anymore. Those other guys are your competitors – they don't want to help, and it's unrealistic to expect competitors to help. And relationships with others in the cargo chain need to change, too. Airlines used to treat freight forwarders very paternalistically – we expected them to do what we told them to do. But that's no way to treat partners. So we've finally evolved, at IATA at least, toward a B2B model and procedures that treat others in the cargo chain as peers, not subordinates.

Some people say that at many combination carriers cargo is treated as a sideline or step-child; what can be done to change that?

IATA did a campaign among its member airlines a few years ago to raise awareness of the value of cargo. There were three audiences: airline CEOs, government agencies (for airport investments), and the marketplace, especially investors. Among IATA member carriers, cargo averages 12% of revenue, three times the average value of first class passenger business (4%). Yet look at all the investment in the First Class product: limousines to and from the airport, departure and arrival lounges, huge seats that turn to beds, the latest inflight entertainment, spectacular food and wine, and more. Last year, the cargo share had dropped to 9% and FC was still 4%. But airlines are still not investing what they should in cargo. Part of the reason for that lack of investment is what my SmartKargo colleagues call the vicious cycle: low cargo revenue leads to low or no investment in IT and other items, which in turn produces disappointing revenues. It's time to create a virtuous cycle!

I also think that longer-range widebody aircraft, with ample bellies, will start to change the

focus. The world is shrinking, and anywhere is now one stop away. Cargo revenue will help justify the decision to buy and fly these big, long-flying planes. We're already seeing evidence of that in North American and other carriers.

What's your view on airlines trying to build their own cargo system?

An analogy works well here: pretend I'm pretty good with tools, and I could, with some help, build an automobile. It would run, it might even go fast enough to use on the motorway. But it would not be as good as what I could buy from a global brand. Automobile makers invest billions to keep current, the best technology, the best safety, the best energy efficiency. It works that way in cargo IT, too. Yes, you could build your own, but why wouldn't you look for someone who's already done it, and to a very high standard. Truth is, lots of airlines have opted to build a system themselves, have spent millions and taken months if not years, and have little to show for it – and in some cases nothing. The answer is clear: don't do it yourself.

Finally, what caught your eye at SmartKargo?

Once I saw the system! I've advocated end-to-end solutions for years. And being 100% in the Cloud gives SmartKargo enormous power, for example, in making the same information visible at the same time to everyone who needs to know. I really like that SmartKargo was designed around every partner in the cargo chain, not just the carriers. Because air cargo is an ecosystem, and every partner needs to be linked. No existing product does all that SmartKargo does: 1) robust functions from shipper to consignee; 2) management reporting and business intelligence – built in “Big Data” strength; and 3) mobile apps. And the icing on the cake is SmartKargo's customization – from the start they sit down with the airline customer to make sure that the system can adapt to the particular needs of the airline, and not the other way round, as is the case at so many IT providers. But it doesn't stop there: to make sure that SmartKargo exceeds customer expectations, after implementation they deliver up to 100 person-days of programming per year. It's quite a package!