



EGSAC

Branching out

General sales agents (GSAs) are enjoying increased activity as airlines look to cut costs and enter new markets cheaply. But while they are offering new services, competition is tough and the rewards can be slim, says **Ian Putzger**

Brasil Cargo Service (BCS) was on a roll in May. Within two weeks, Brazil's largest GSA signed up three new airline clients. After TAAG Angola and El Al struck deals with BCS on 1 May, Tampa announced on 15 May that it was going to use the GSA to market its capacity out of Manaus with immediate effect. The deals brought the tally of BCS's clients to nine, including Cargolux, Delta, Aeromexico, THY Turkish Airlines and Aerolineas Argentinas. In addition, the GSA acts as a charter broker for Antonov Airlines and Volga Dnepr.

In America's northern hemisphere, a new kid on the block has busily piled up airline

deals. New York-based Airline Network Services (ANS), which kicked off earlier this year with an agreement with UK-based BMI, subsequently announced deals with seven other carriers. The GSA's portfolio now is a mix of diverse airlines including US budget airline Jet Blue, Hainan Airlines, Virgin and Solar Cargo, a Miami-based cargo airline operating DC-10-30Fs to Venezuela. Up in Canada, Network Cargo Systems (NCS) is currently preparing for the start of a Milan-New York-Toronto freighter service by Cargoitalia, which is expected to commence in September. In early August, the Toronto-based GSA was close to signing two more

airline agreements, according to NCS president Howard Jones.

The picture is no different on the other side of the Atlantic. Faced with dramatic drops in volumes and yields, airlines are trying feverishly to bring down their costs. This has made the GSA option significantly more attractive to many of them.

"A lot of carriers are looking at cost cutting. We are looking at five airlines that are tendering at the moment," confirms Ton Smulders, president of EGSAC, a GSA consortium with members in 35 countries.

The interest in GSAs is not confined to passenger airlines. "There is no question ►



Jones: expansion NCS

“ The US is such a big market that one office may not justify the whole thing, but we are looking to Europe first because that's a stronger market than the US ”
 Howard Jones, NCS

that airlines are looking at their cost model more aggressively than ever, whether they are combination or cargo carriers,” says ANS founder and CEO Jens Tubbesing.

He points to another reason for the current popularity of GSAs. Schedules and networks are changing a lot faster than

they used to, which makes airlines more reluctant to invest in a sales infrastructure for a service that may not be around a few months later.

In addition, airlines' approach to markets has changed, he argues. “In the past, many airlines used to think ‘we fly to New York and we concentrate on that’. Now, especially in the current market downturn, they realise that they miss out on basic opportunities with such an approach,” he says.

As ANS's rapid ascent indicates, the newfound interest in the GSA option has breathed new life into the concept in regions that have traditionally proved tough for GSAs, such as the US market. Tubbesing reckons that it will gain more traction as GSAs in the region become more professional.

GSAs may be finding a lot more opportunities at the moment, but margins are a different matter. With the focus on savings, airlines are trying to squeeze as much cost as possible from their providers, says Guy Tordjman, chief executive of European Cargo Services (ECS), a network of local general sales and service agents spanning 30 countries. At current rates, it is impossible to make money on a commission of 5% on many sectors, agrees Smulders.

As airlines embrace more comprehensive arrangements with their GSAs, in some cases as far as running the entire cargo department, the remuneration model has shifted in some cases to net-net deals. As Tubbesing stresses, no two contracts are identical, so the financial arrangements

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tend to vary significantly, depending chiefly on the complexity of the service agreement.

"Net-net is fine, but it depends on what the market looks like," comments Smulders. "At the moment, the market is down so much that you can't make money with a net-net deal either."

Overall, airlines tend to prefer the commission model, as it gives them more transparency, he continues. Recently, more and more airlines have given up their insistence on keeping fuel surcharges separate from rates and are including them in the base for the commission. In light of the sharp decline in yields and rates, this has brought only limited relief, though, and often commissions have been tweaked, so the net result has meant little improvement for GSAs.

"Now we just generate as much tonnage as we can," remarks Jones.

Smulders views adding value as a key strategy to battle the impact of the downturn. "We need to focus on added

value in these rough times," he says, pointing to elements like supervision on the ramp or trucking facilities.

"GSAs are export-driven, but the import problem has to be resolved. Don't walk away from import problems because you don't get paid for that," he stresses.

In addition to sales representation, ECS provides ground handling in France and in Miami. Those activities arose out of local strengths and customer requirements and are not likely to be spread across the network, Tordjman says. "Handling is less than 5% of our total activity. It is not a big deal."

ECS has leveraged its presence in some markets to create regional hubs for airline clients. This concept was developed a few years ago, when one of its clients was flying to destinations like Santo Domingo, which had no cargo to speak of. The GSA developed feeder traffic from nearby islands, a concept that

it has since deployed elsewhere. This is probably most developed in Africa, where the company is the main stakeholder in a carrier, Africa West.

Ultimately, the extent of services provided to an airline client hinges on the level of involvement desired by both sides, comments Tubbesing. "It depends on ▶



Tordjman: feeder traffic ECS



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what kind of relationship you want to create between an airline and a GSA. Are we a low-end extension of your structure that does not participate in the airline, an arm's length vendor relationship that generates little value? Or does the airline see its GSA as a partner who is part of its global sales force, a more proactive member?"

The latter course is the direction he wants to pursue with ANS. "We want to be proactive with suggestions. When there's a persistent problem with overbooking with a client, we should try to identify the pattern, try to identify the problem and find a solution," he says.

He cites ANS's relationship with Jet Blue, which kicked off on the airline's home turf in New York. "They wanted something new, they were looking for ideas, not just selling," he says.

Poor margins are undermining GSAs' ability to invest in technology to develop more value-added options. Still, Tubbesing regards it as important to be able to provide online functionality, such as electronic booking, requests for quotes or air waybill printing.

"Our clients don't have to go for online functionality, but we can provide it if they want," he says.

ECS has been using Cargospot. This has been a big advantage for airlines that do not have their own system, comments Tordjman.

NCS signed up for Cargospot last year and has found that it has improved efficiency in a number of areas. "If you load all the information properly you'll get a lot of stuff out of there," says Jones.

If airlines look to GSAs in part for the sake of extending their reach beyond the gateways



EGSAC has a handling facility in Milan EGSAC

they serve, then it is probably not enough for a GSA to have a presence in one market.

"You have to be part of the local community to have business come your way. You don't achieve the same traction if you visit Atlanta every three weeks," says Tubbesing.

He has ambitions to broaden ANS's footprint. Besides adding some stations in the US, he wants to branch out into Canada as well as to the southern hemisphere. "We will look at a comprehensive Latin America

to Europe first because that's a stronger market than the US," he added.

Networks like EGSAC or ECS have spread over considerable areas. While the former has 32 members in 35 countries that between them represent some 150 airlines, ECS today stands at 42 subsidiaries in 30 countries and €389 million in annual turnover.

Not surprisingly, Tordjman and Smulders argue that their model works better than a monolithic, multinational GSA giant, largely thanks to local market expertise. Smulders describes EGSAC as something that grew in response to global network needs. "We want local members who know their markets best. We think this will be a better proposition than multinationals," he declares.

ECS had been looking to spread its model to South America and Asia before the economic downturn unfolded. For now, this has put its expansion plans on hold. In the present conditions it makes more sense to consolidate the existing structure and control costs, comments Tordjman. "Our group is going to wait and see how the situation pans out."

While the number of airlines that are open to the idea of GSA representation has grown, the drop in yields and margins has put considerable pressure on GSAs. So far, most appear to be hanging in there.

"I don't see that many GSAs are dropping out of the market. Everybody is looking for new business and competition is fierce," remarks Smulders. ■

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 Ton Smulders, EGSAC

plan later this year. We want to be in at least three or four major countries," he says.

Outside its Canadian home market, NCS has built up a presence in Mexico, Jamaica and the Dominican Republic. It has a branch in New York and another in London. "We're probably going to look at further expansion. Canada is pretty much saturated," says Jones. "Since we are in New York already, we are contemplating Los Angeles, or Miami. The US is such a big market that one office may not justify the whole thing, but we are looking

Tubbesing: proactive ANS

