

A momentous year for Unitpool



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Will Waters talks with Unitpool CEO David Harman about a momentous year and a new phase of growth for the recently acquired company

Last year turned out to be a truly momentous year for one of the airline industry's two main ULD outsourcing companies, Unitpool. Not only did it expand its fleet – and business – by 50% in one fell swoop by taking on Europe's largest all-cargo airline, Cargolux, but it rounded the year off by being acquired by an ambitious new owner, Australian group Brambles, which also owns the world's largest pallet-rental supplier, CHEP.

The new ownership brings fascinating possibilities in terms of synergies between the two businesses' pallet-pooling operations, as well as a financial lifeline that has enabled Unitpool to lift its head up from its day-to-day business and think once more about a further phase of expansion and development.

Ownership changes are hardly unfamiliar territory for Unitpool, which developed its ULD pooling concept under the brand Globepool within the SAirGroup, for members of the now defunct Qualifyer Alliance. After the demise of Swissair in 2002, it was renamed Unitpool and had a brief period as an independent. It was acquired the following year by handler Swissport, a relationship lasting four years, until Swissport sold the majority of its shares in Unitpool to Aviation Services Holdings, a holding company created by former Swissport executive Ludwig Bertsch, and Afinum, a German private equity house.

But the timing of the Brambles takeover, it seems, could not be better, coming at the end of a massively turbulent 24-month period for the aviation industry, which stretched all companies involved in the sector, and particularly those whose job it is to smooth out the peaks and troughs of the business cycle on behalf of its customers.

Unitpool CEO David Harman says: "I would not say that we needed new ownership, but we were becoming constrained, and so the opportunity came at a very good time." He says there is a tremendous amount of change that has been taking place since the completion of the takeover last September, including a lot of strategic development, although some of these will have to remain under wraps for now.

But there are a number of "immediate positives" that he can reveal, particularly resulting from having strong new financial backing. "Since the change of ownership from Swissport, we had a very good, supportive set of shareholders, but there were some financial constraints, and during the global financial crisis we faced a combination of challenges," he says. "One challenge was the bankruptcy of a couple of customers – Zoom and the original Cargoitalia – which caused ongoing revenue reductions. That was combined in 2010 with a huge surge in growth from some of our cargo customers, which led to some quite large investment requirements for us, on behalf of our customers."

The Unitpool model requires the company to provide for its customers' complete ULD needs, matching these to the requirements of their aircraft fleet and the stations they serve. "But the market has been very volatile in recent years, shrinking and then growing rapidly, and it was difficult for the old shareholders to acquire ULDs fast enough to manage the growth of our customer base," says Harman. "Since September, all of the lease financing we have been able to secure has been paid off in full, leaving us with a completely freed-up balance sheet that is far more attractive for prospective customers, and meant we could start the process of acquiring assets in advance of them being required by customers, and building up healthy buffer ULD stocks."

These buffer stocks are extremely important to a pooling business, in order to manage volatility. "So the financial strength of Brambles has immediately shown through, and their commitment to refinance the company to support future growth," Harman says.

A second immediate benefit has been the ability to bring in some important human resources, including former Swiss International Airlines executives Markus Vetch and Gianni Mauri. This has come alongside some structural change, to enable the company to focus on account management and build up its international ground services organisation, says Harman.

"We have quite a strong network of supervisors in key stations, because it is important for us to have very good control of the assets. We used to group together the supervisory organisation with the account management organisation, all reporting to our Director of Operations. But that function, as we have grown, became too broad for one person, so we have split that into three, with a dedicated account management structure, a dedicated central organisation looking after asset control, and ground services – the different supervisors around the world."

Harman says the asset control organisation, based in Bangkok, is now able to focus on two main areas: making sure the messages from the airlines that show where the ULDs are moving are coming through and being processed immediately, so that the asset control is enhanced; and so they are able to be more proactive, using the forecasting tools that Unitpool has, so that it can prevent stock issues.

Vetch, a former Vice President for Operations at Swiss WorldCargo, is to head up the ground services organisation, and Mauri, former General Manager for Process Engineering at Swiss WorldCargo, will head up the European part of the ground services organisation, "which is where we have the biggest complexities and the biggest team," says Harman, himself a former Swissport and Swissair Cargo senior executive. "Together they will be building our processes and the network over the next six to 12 months. And the head of operations in Bangkok will focus on enhancing operations there, including an important project taking place at the moment, to upgrade our asset management system, Tracker 4. So there are lots of organisational enhancements going on."

Process innovations are an area where Harman believes there will be valuable synergies with Brambles subsidiary CHEP. "The CHEP organisation has spent a lot of time developing innovative products that are tailor-made for customers. They have a large number of six-sigma black-belts, and have really got their processes down, so we have already started to make use of some of that resource, to enhance our processes and IT systems."

There are also likely to be synergies because of the similarities – and differences – between two pallet- and container-pooling businesses, one focusing on airline units and the other on terrestrial transport and storage. But one of the reasons for Brambles' interest in Unitpool is the potential that still remains in what is still a relatively immature outsourcing market. Harman says: "The model of outsourcing of ULD management has gradually matured, but there are still only two providers – us and Jettainer. The total number of ULDs managed by ourselves and Jettainer would be around 100,000, out of a total of around 800,000 in use at any time – or 1 million, if you include the integrators. So, only around 10% of the market has been outsourced, meaning that the accessible market is still vast."

The acquisition itself appears to have heightened the interest from airlines in the possibility of outsourcing its ULD management, now that Unitpool has sufficient backing to potentially take on the assets of the biggest names in the industry. "We have been in existence for 10 years, and Jettainer for almost the same time, but until recently the market felt that we were immature," says Harman.

Unitpool's contract win with Cargolux, and its ability to manage its assets successfully, has also been a significant milestone in this respect – although taking on by far your biggest and most-demanding customer during a rapidly recovering cargo market meant that the first few months of that contract were highly challenging.

"That also generated a high level of interest, but we were internally focused at the time, because it was such a big chunk of new business for us," says Harman. "We have learned a lot from the Cargolux experience, and we are a better and more professional organisation as a result of it. From the outside, it was fairly smooth – from the customer and the market perspective it was seamless – but from the inside it was a challenge," he admits.

The challenges were increased by events like the volcanic ash crisis, which caused huge disruption to schedules, and the rare closure of Luxembourg airport – Cargolux's hub – due to snow.

One thing that Unitpool underestimated was the sheer volume of ULD position messages that would come through from such a large all-cargo airline, with 16 B747 freighters, even though there was a period of parallel running. "Cargolux is an extremely professional company, and therefore we had to go through a lot of pre-implementation with them, including a 10-week parallel run before cut-over," says Harman. "There was never any question of us having a systems failure, but when it came to the real run, the volume of messages was higher than we had anticipated, and for the first few weeks we were under-resourced."

Harman says that managing the ULDs for cargo airlines is far more challenging than for passenger airlines. As

well as having more ULDs per aircraft, cargo airlines are also far more opportunistic, and far more apt to change their network at short notice, whereas passenger airlines tend to stick to a schedule for a whole timetable period.

"A freighter operator is able to make short-term decisions. They might decide there is an opportunity to start up a new station, and start it up in three or four weeks," says Harman. "That is one of the big advantages of working with a company like ours, because it becomes our responsibility to make sure that the ULDs are positioned in advance, and that we have acquired the stock in advance."

Although Unitpool has other airlines that operate freighters among its 20 customers, including AirBridgeCargo, Cargitalia and Polet Cargo Airlines, the scale and flexibility requirements of Cargolux took Unitpool's cargo capabilities to a new level. For example, it has set up a dedicated freighter team in its operations centre in Bangkok, available 24-7 and able to react quickly to charter requests.

"Working with Cargolux has helped us tremendously," says Harman. "We have not only grown, but we have enhanced our quality and processes tremendously, and are in a far stronger position. I am not saying that we were not professional and reliable before, but working with a blue-chip carrier like Cargolux, with a can-do attitude and very high performance standards, has made us more professional, and all of our customers have benefited from that."

One of the complexities Unitpool and others faced in 2010 was that, having done the budgets in late 2009 for 2010, it understandably expected airlines to have a fairly flat year in 2009, and so did not order many ULDs. "But the market in 2010 turned out to be very strong, and airlines were leasing in additional capacity and giving us just a few weeks' notice. So, it was a tough year – but also a fantastic year for us," says Harman.

Having succeeded with the Cargolux account, Harman feels that Unitpool is now capable of taking on pretty much any challenge, especially with the backing of its new owners.

And there seems to be a growing appetite among airlines for outsourcing options such as the one offered by Unitpool, particularly because it not only reduces an airline's capital expenditure requirements during periods of expansion, it also makes capital available to the airline. The Unitpool model is to purchase the ULD fleet from the airline and add it to the company's pool of 38,000 ULDs, under Unitpool's own unique IATA code. Rival Jettainer has a similar model, purchasing the ULDs of its customers in most cases, although the pallets and containers continue to use the IATA code of the respective airline customer.

The recent market volatility, and especially the rapid recent recovery, looks like it will be good for business – as might the recent re-emergence of fuel price rises.

"We can offer the opportunity to switch to lightweight containers on a variable basis, as opposed to a cap-ex basis, and that has generated a lot of interest as well," Harman points out. New lightweight LD3s, made of composite materials, weigh around 14kg less than a 82kg standard aluminium one – a weight reduction of 17%. With today's aircraft able to take 24 or 25 of them, the potential fuel burn saving is tremendous, says Harman.

"Ours is a compelling story, and the number of enquiries over the last year has been impressive," he adds.

While resource constraints prior to the acquisition meant Unitpool was not able to tackle these new opportunities aggressively, that is now changing. "We are now able to focus on the core business, and, in parallel, focus on attracting new business, which was difficult for us before," Harman says.

Among the many benefits, the change of ownership has also made it easier to attract good new people to the organisation, a key factor in the future of the business. "It is far easier to do so when we have a clear growth plan, which we do now, than with a company that is constrained," Harman concludes. "There are some more good people that are coming into the organisation, and there will be quite some growth in the coming year, in terms of the organisation, the inventory base, and the customer base."