

# Managing through Financial Crisis - Outsourcing ULD Supply & Management

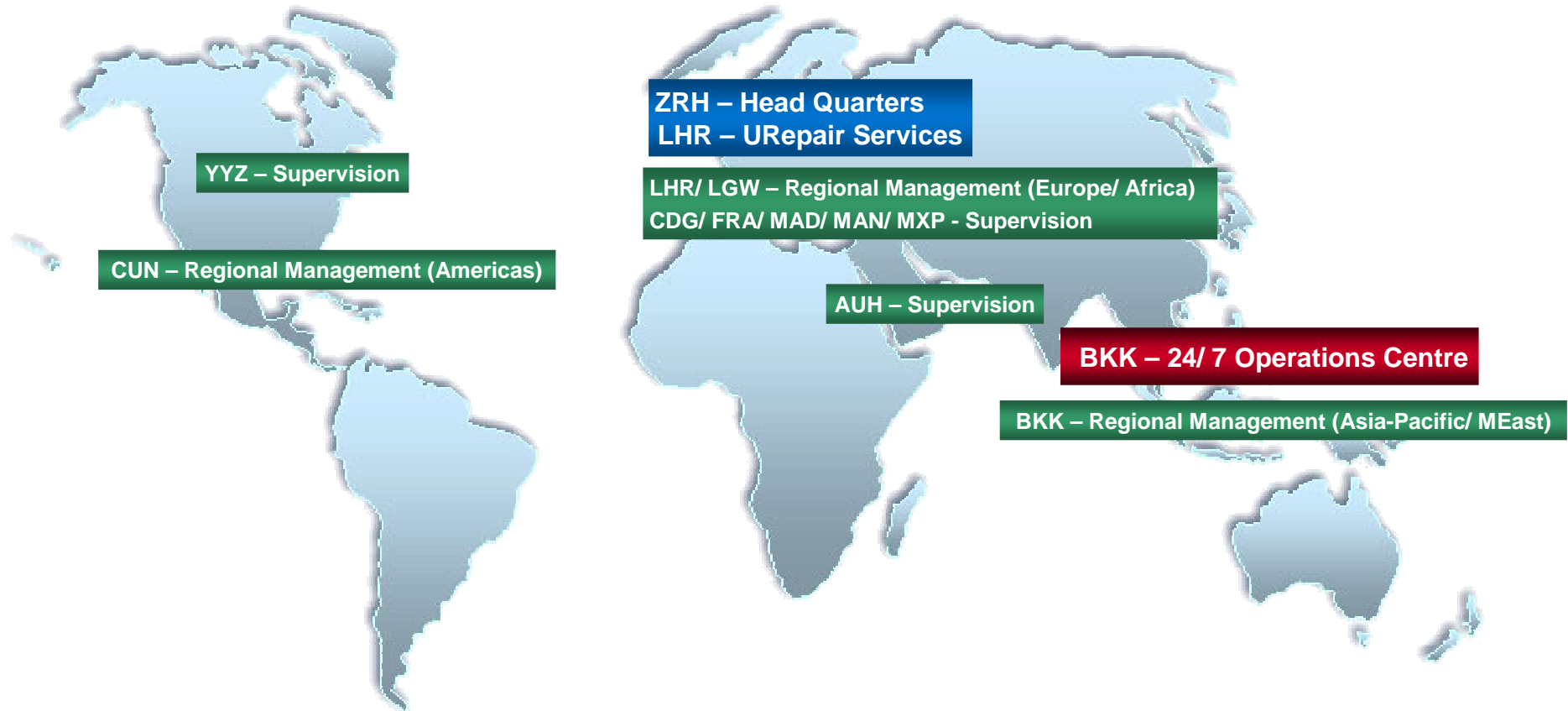
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# Unitpool Factsheet



- Only independent ULD pooling company, providing a fully outsourced supply and management solution
- 22,000 ULDs in inventory
- 22 pooling customers
- serving over 250 stations around the globe
- 34 global repair centers all certified for ULD repair

- IATA ULD User Group Representative for Unitpool member airlines
- Excom with airline background, understand the importance of ULD to the airline's operation
- AKE Fleet Conversion to Lightweights – project started in Sept 2008

# ULD Facts



- ❑ There are some **800'000 ULD** around the globe today
- ❑ The industry's loss ratio averages **15-25%**
- ❑ **“Repair and Maintenance of ULDs costs the industry US\$ 220 million per year.** High incidence of damage, forces airlines to create large inventory buffers. The root cause of such a heavy need for R&M lies in improper handling of ULDs, poor control of operations, and lack of effective track and trace.” (IATA)
- ❑ Despite the recent truce on high fuel costs, **Lightweight ULD** remain on everyone's mind – whilst there is a need for change, the big question many are facing is **how to finance the change**
- ❑ ULD management is a **mission critical** component of the airline's operation but it remains a **non-core activity** that **ties-up valuable capital** into an **asset that is often sub-optimally managed**
- ❑ Famous quote from many ULD managers – ***“Nobody wants to know about ULDs... until there are none...”***



**In today's economic environment,  
should ULD supply and management not be part of  
top management's cost saving initiatives?**

**We believe so,  
and this is why...**

# In-Sourcing vs. Outsourcing



## KEY FACTORS

### IN-SOURCING

### OUTSOURCING

#### ULD OWNERSHIP

Typically **capital is sitting on the airline's balance sheet**, incurring financial costs

Unitpool acquires Airline's ULDs – **investment & capital risk transfers to Unitpool**

#### ULD STOCK REQUIREMENTS

typically requires a **high buffer stock** to cover for turn-arounds, delays, damaged units, network imbalances, ULD out to cargo agents

network overlaps create **synergies** that **allow us to pool the stocks at those stations**, thereby **reducing the airlines' individual buffer requirements**

#### REPAIRS & MAINTENANCE

typically **handled at hub(s)**, generating ULD **repatriation cost**, **slower turnaround**, and **reduced capacity for cargo revenue**

**global network** of certified suppliers allows for **reduction in repatriation costs**, **faster turnarounds** and **increased capacity for cargo revenue**

# In-Sourcing vs. Outsourcing (2)



## KEY FACTORS

### IN-SOURCING

### OUTSOURCING

#### TECHNOLOGICAL RESOURCES

ULD system is typically a **module of another system**, and often **sub-optimal** to perform critical ULD management functions and with limited adaptability to newer technologies

**dedicated** ULD management system **accessible to the airline via web**, fully **compatible** to embrace developing technologies (ie **GPS tracking**)

#### HUMAN RESOURCES

at **Hub** - typically **few dedicated staff** working on regular schedules despite airline's 24/ 7 global operation

in the **Network** – typically a **function of the airline's rep** (if any) or **the ground handler**

**24/7 Operations Center**, based in BKK monitoring the stocks across the global network,  
**Regional Management Structure** in the Field providing **supervision at key stations**

#### IMPACT ON FINANCIALS

typically **high fixed cost ratio**, in addition to substantial **capital tied-up in assets**

turns a fixed cost to **variable cost**, **reducing OPEX** – the airline pays for the ULDs it needs

# ULD Outsourcing: Benefits for the Airline



## KEY FACTORS

## BENEFITS FOR THE AIRLINE

### ULD OWNERSHIP

Airline **makes a book gain** through the sale of its ULD and **frees-up capital**

### ULD STOCK REQUIREMENTS

Airline **pays for ULD it needs** – the **stock is scalable monthly**, making costs variable to mirror the changing economic flows and operational changes

### REPAIRS & MAINTENANCE

Airline **no longer carries the burden** (financial & administrative) of repair contracts, and benefits from a **global network of repair partners, reduced cost of repatriation to hub(s)** and **increased capacity for cargo revenue**

# ULD Outsourcing: Benefits for the Airline (2)



## KEY FACTORS

## BENEFIT FOR THE AIRLINE

### TECHNOLOGICAL RESOURCES

Airline has **full visibility of its stocks through web accessible Tracker**, no more development, maintenance cost to ULD management system (module)

### HUMAN RESOURCES

Airline **has one point of contact** - Unitpool Account Sponsor, and need only retain an escalation point to provide schedule up-dates, operational changes and approve monthly stock proposals

### IMPACT ON FINANCIALS

Airline turns a **fixed cost** into a **variable cost** and **frees-up valuable capital**

## A business Case Example: Assumptions for a 5-year case



- ❑ Mid-Size Carrier operating **38 wide-body** aircrafts (A340/ B747 Types), with industry standard ULD management capabilities
- ❑ Network – **34 destinations** worldwide – of which **15 overlap** with Unitpool customers
- ❑ Owns a fleet of **5'200 ULD** – 50-50 container-pallet mix, including 1950 AKE
- ❑ **ULD replacement** level would normally be around **10-15% of total stock annually**,
- ❑ Average **cost per new ULD EUR 650** (price remains static throughout the case)
- ❑ **Net replacement** typically **33% of Pallet stock**
- ❑ Average **cost per Pallet Net EUR 85** (price remains static throughout the case)
- ❑ **Repair ratio 150% - airworthiness is of utmost importance given increasingly tough security regulations around the globe**, and each unit will visit a repair shop for repair or maintenance one and a half times per year (if not more), at an average **EUR150 per visit**
- ❑ Staff directly attached to ULD management – **4 FTE**
- ❑ Annual **Cost of Living 2%** (impacting only overhead)
- ❑ Assume **4% growth in years 4 and 5**
- ❑ Currency **EUR**

# A business Case Example: Estimated Cost of In-Sourcing



	Y1	Y2	Y3	Y4	Y5
Annual ULD Replacement Cost (10%)	405'600	405'600	405'600	421'824	438'697
Annual Net Replacement Cost	72'930	72'930	72'930	75'847	78'881
Annual Repair Cost	1'170'000	1'170'000	1'170'000	1'216'800	1'265'472
Overhead (FTE, IT, Communications, etc)	154'400	157'488	160'638	163'851	167'128
<b>Estimated Costs to Manage ULD In-House</b>	<b>1'802'930</b>	<b>1'806'018</b>	<b>1'809'168</b>	<b>1'878'322</b>	<b>1'950'178</b>

**Total Estimated Cost of In-Sourcing 9'246'615**

- ❑ Above does not account for
  - ❑ financing costs
  - ❑ depreciation costs
  - ❑ hidden/ difficult to assess costs (such as high repatriation of damaged units to hub – additional fuel cost and loss of cargo capacity)

# A business Case Example: Estimated Cost of Outsourcing & Savings



	Y1	Y2	Y3	Y4	Y5
Estimated Cost With Unitpool	1'564'680	1'533'386	1'502'719	1'532'773	1'563'429

**Total Estimated Cost of Outsourcing 7'696'987**

**Potential Savings Over 5 Years 1'549'628**

This is **17% saving** is achieved

- through a **reduction in stock of 15 to 20%** from the start of operation (based on synergies from network overlaps with existing Unitpool customers)
- **guaranteed year-on-year 2% reduction in stocks** (based on increased synergies, improved knowledge of the operation going forward)

## In addition

- Unitpool **buys-back the entire ULD fleet** of the airline – 5'200 ULD, averaging 5 years of age it could represent a **cash return** in the realm of **EUR 1.4 to 1.5 Million**

**Total Potential Return for a 5-Year Term**

**2'979'628**

## Lightweight Impact: Calculation model for additional kg



The following calculation model is utilized by our top customers

- **Every additional kg of weight**, represents between 3.2% and 4% of additional kilos in jet fuel
- **For an aircraft flying 4'000 hours per year** (an accepted average for a mid to long range aircraft)

**1 additional kg of weight X 3.6% additional kilos of jet fuel X 4'000 hours flown**

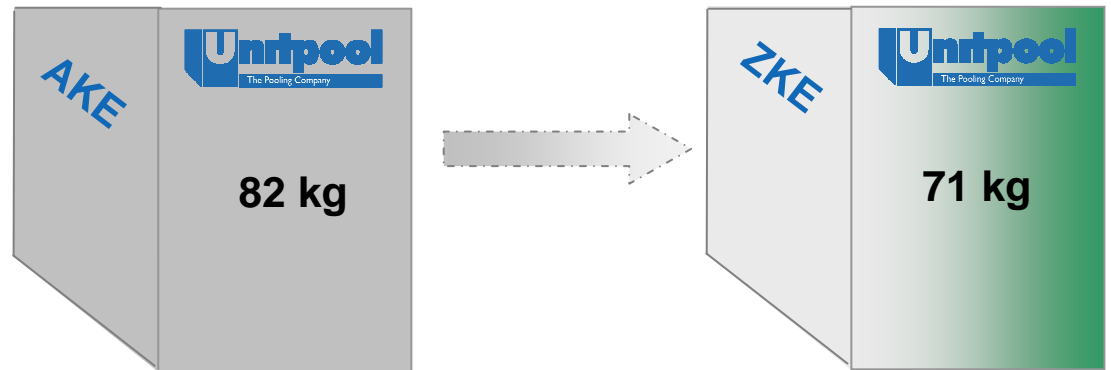
- This equates to **144 kg of additional fuel per year**
- Depending on the Price of Jet Fuel, on any given month the **additional kg of weight will cost** the airline anywhere between **EUR 51 to EUR 121 per year**

**In other words, an A340 with 14 standard AKE costs an airline somewhere between EUR 58'500 to EUR 139'000 per year in fuel**

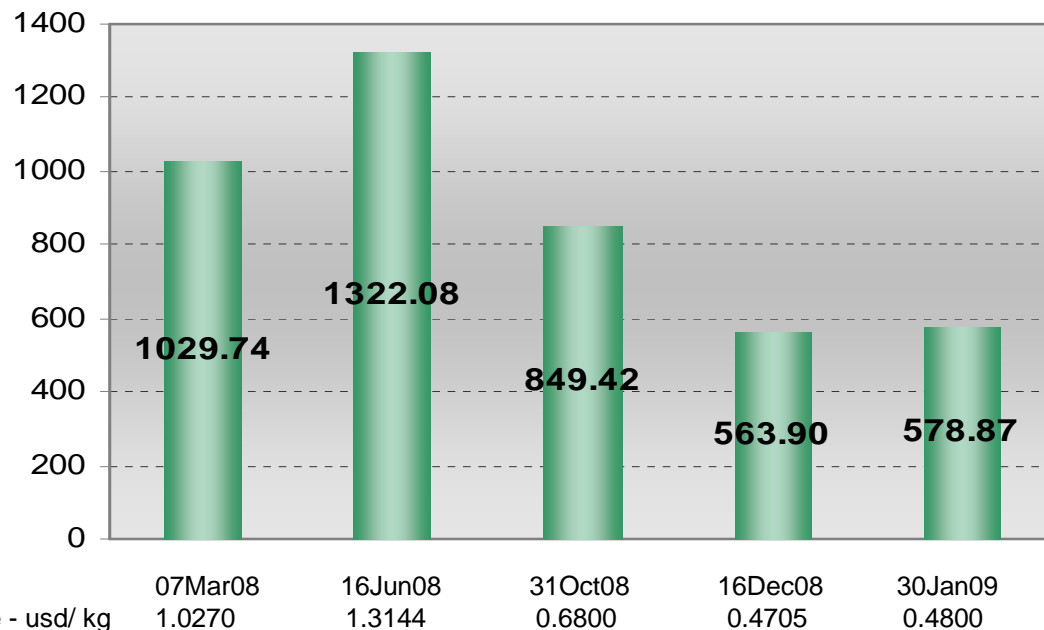
# Lightweight Impact: Potential Savings per Unit



Going from a standard aluminium AKE to a **light weight** version, can **save between 11kg and 15 kg**



**Fuel Saving per Light AKE (EUR)**



**Potential Fuel Savings per Light weight AKE** has gone from EUR1'030 (in March of last year) to **EUR 579** at **30<sup>th</sup> January 2009**

Source: IATA

# Lightweight Impact on the Case Example



- ❑ Potential **fuel savings** from **switching 1950 aluminium AKE to light weight** units, would be in the realm of **EUR 1.1 Million per year** at current Jet Fuel prices.
- ❑ The **initial investment** would be in the realm of **EUR 1 to 2 million**, depending on the model purchased and possible exchange programs for the existing aluminium fleet.
- ❑ The **airline would not benefit from savings for 2 to 3 years**, with steep initial costs and an estimated time-line of 12 to 18 months to make the full switch to light AKEs.
- ❑ **With Unitpool**, taking into account adapted service fees for this premium product, **the airline would start benefitting from fuel savings almost immediately**, but without the high initial investment and the risks attached to a product that is still very much in development and has various unknowns (repair frequency and cost, durability of the units, etc.)

**Total Potential Savings for a 5-Year Term  
Including Light Weight Impact**

**Upward of  
EUR 6M**



**In today's economic environment,  
should ULD supply and management not be part of  
top management's cost savings initiatives?**

**We believe so,  
and we hope to have proven why!**

**With Unitpool, you will not need to think about ULD,  
because we WILL!**

# Thank-you!



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