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K.L.M. Cargo: A DIVISION IN TRANSITION

A RESEARCH TOPIC
PRESENTED TO THE BUSINESS SCHOOL
OF THE LEBANESE AMERICAN UNIVERSITY

IN PARTIAL FULFILLMENT
OF THE REQUIREMENTS FOR THE DEGREE
OF
MASTER IN BUSINESS ADMINISTRATION

BY
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JUNE, 1996

LEBANESE AMERICAN UNIVERSITY
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APPROVAL OF RESEARCH TOPIC

CANDIDATE: NADER EL KHANSA DATE: JUNE, 1996

DEGREE: MASTER IN BUSINESS ADMINISTRATION

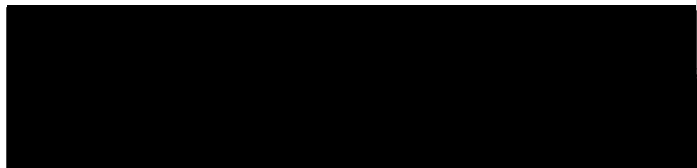
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Abstract

This research will study a recent experience in the air freight industry, i.e. a fresh and courageous venture undertaken by the Dutch carrier KLM whereby the two major divisions in the airline will be split and each one will act as a fully independent entity. The main aim will be to focus on the new radically restructured cargo division in KLM which has been for a long time largely influenced and dominated by the passenger division as is the practice in most world airlines.

This research will also highlight this new revolutionary tendency in the air freight arena and the awareness of a new group of people with a new mentality admitting the crucial role which should be performed by the cargo sector. These people are fully willing to back-up the freight division and help in freeing its hand for the purpose of what they believe would be a major breakthrough/achievement in the industry.

The objective will be to somehow describe and analyze the pluses and minuses of such a "metamorphosis" in KLM Cargo, and see what similar steps have other carriers initiated and how they will follow suit. The writer will undertake some secondary research analysis of both the company and the industry, making use of the available figures and literature gathered from KLM and other credible sources, along with interviewing some key managers in the organization.

ACKNOWLEDGMENTS

I would like to thank my advisors, Dr.Lewis Presner and Dr.Hussein Hejase for their guidance, assistance, and suggestions.

Thanks are also in order to KLM Cargo's communications department in Amsterdam for their assistance in providing me with precious information, as well as to Mr.Jan Krems and Mr.Robert Van De Weg who were kind enough to share with me their thoughts, beliefs, and experiences.

My last but not least acknowledgment goes to my friend Mr.Maher Ezzeddine for his constant help all through this project.

I would like to dedicate this research paper to my parents in gratitude for their never ending support and encouragement.

OUTLINE.

A- Chapter 1 : Introduction

1.1- General industry's background	p 06.
1.2- Air Transportation's products	p 07.
1.2.1- Passengers and baggage	p 07.
1.2.2- Cargo	p 08.
1.2.3- Mail	p 08.
1.3- A historical and philosophical view of the passenger versus the cargo business	p 08.
1.4- Statement of the problem/opportunity	p 10.
1.5- Purpose of the study	p 11.
1.6- Organization of the paper	p 12.

B- Chapter 2 : The general worldwide situation of the cargo industry today: new shape and dimensions.

2.1- A quick overview of the current market trend	p 13.
2.1.1- Copenhagen airport	p 16.
2.1.2- JFK airport	p 17.
2.1.3- Dubai airport	p 17.
2.2- A brief specific look into the Lebanese air freight situation	p 19.

C- Chapter 3 : Methodology

3.1- Research design	p 23.
3.2- Data collection method	p 24.

D- Chapter 4 : The splitting between KLM's passage and cargo sections, and in-depth KLM Cargo's organizational restructuring.

4.1- Summarized background on KLM and its operation process	p 25.
4.2- KLM Cargo: a new autonomous division. Reasons behind the decision, guidelines of the new organization, and new established systems and expectations	p 26.
4.2.1- Outline of KLM's positioning and of KLM Cargo's strategies	p 28.
4.2.2- KLM Cargo's new organizational structure	p 31.
4.2.3- Background to KLM Cargo's new market approach	p 37.
4.3- Other carriers' moves and reactions	p 40.

E- Chapter 5 : Final findings and conclusions

5.1- Summary	p 42.
5.2- The KLM Cargo market approach	p 45.
5.3- KLM Cargo's European Management System and corporate culture as viewed and assessed from the American perspective	p 50.
5.4- Limitation of the study	p 62.
5.5- Recommended future researches	p 63.

CHAPTER ONE

INTRODUCTION

1.1 General industry's background

Even with its most complicated technology and sophisticated international rules and regulations yet, "air transportation is still widely regarded as a back-up to surface transportation ¹". Therefore it is not surprising to know that most of the shares of the transportation pie are attributed to the sea and land sectors.

"Transportation itself doesn't have a much higher profile as it's regarded as a derivative of trading - only after a trade has been concluded does transportation come into the game ²". After the needs have been established at the one end, and the goods have been produced at the other, transportation shows up as a necessary element of the equation, and as an intermediary bridge that could narrow the gap between the producer and the end-user, thus ultimately completing and finalizing the transaction process.

Because transportation and distribution services have been constantly subjects all over the years to a trend of accelerated evolution, carriers have found themselves operating in a highly dynamic and fierce competitive market. In their striving to adapt to this ever-changing situation, they had no other choice in this struggle for survival than to maintain their worldwide networks, and to consequently incur " huge fixed costs and facing more ³". "Air frame manufacturers such as Boeing and Airbus estimate heavy fleet expenditure to the tune of USD 725 billion until 2014. For the air cargo market alone, Boeing expects that an additional 600 50-tone freighters will be required. It is also widely estimated that air movements will double in the next 20 years, making an average of 3.5% per year ⁴".

"Capital-intensive industries must organize their activities to take advantage of their costly investments. The most expensive investments in the air transportation industry are aircraft and the infrastructure required to maintain their air worthiness and to coordinate their flights. A major goal of air transport companies is efficient asset utilization keeping the planes fully loaded and in the air, generating revenue for as many hours as possible. The culture of air transport has evolved to keep these assets occupied productively ⁵".

1.2 Air transportation's products.

In their daily preoccupation of flying people and goods, Airline companies are merely performing services, and therefore providing a set of intangible products. The main sources of income generated by worldwide carriers comes from three principal products: passengers and baggage, cargo, and mail. **(Refer to Appendix 1).**

1.2.1 Passengers and baggage.

This constitutes the largest part of an airline's income. The passenger is the best known part among these mentioned products. People can speak for themselves and thus express their needs and wants without a need for an intermediary. Passengers fly by the means of a document called a ticket, and they usually make a reservation for a seat via a travel agent or directly via an airline office.

The main classes passengers are offered to travel in are: first class, business class, and tourist or economy class.

1.2.2 Cargo.

This category is considered as the next largest product. Cargo is the term attributed to overall kinds of goods carried, be it general cargo or special cargo (which needs special care and attention like live animals or perishable cargo such as flowers and vegetables).

While passengers hold a ticket as a proof that they paid and are entitled to a flight, the document relating to the cargo specifying the commodity involved and where it has to be forwarded is called an airway bill.

Cargo is mainly transported on board of the aircraft by means of unit load devices called pallets and containers. **(Refer to Appendices 2a & 2b).**

1.2.3 Mail.

This product usually goes on a contract basis via the postal authorities of a country. Mail is not only letters and parcels but also diplomatic mail.

1.3 A historical and philosophical view of the Passenger versus the Cargo business.

Passengers and packages can both be considered as cargo and more or less "treated as a commodity unit of cargo as far as the flight itself is concerned ⁶". Nevertheless, many clear differences between them can be easily identified. Passengers have "on board intelligence ⁷" and can take care of themselves from the point of origin to the point of destination. They usually like punctuality when it comes to flight schedules, and they do not easily tolerate delays or discrepancies of any kind.

Unlike passengers, cargoes can't be of any help for themselves. They can be bulky, fragile, and sometimes dangerous. Many cargoes need special treatment and attention or they might be spoiled, damaged or even could die. Cargo transportation is subjected to a detailed and sophisticated set of rules and regulations, both from the side of the IATA (the International Air Traffic Association), and from the governments' customs

authorities

As a direct consequence of this "some cargoes are restricted from passenger flight; others can be flown only in small quantity ⁸".

Starting from the crucial point that a passenger is a human being and human souls are the most valuables of all cargoes on board of an aircraft, Governments and international organizations have always considered passengers' safety as a sacred thing, and have taken special interest in ensuring people's security and welfare. Building on this, "regulations specific to passengers are a major concern of airlines ⁹" and have a priority over cargo matters which have always been subordinated to the first. This leads to the fact that "cargo that flies in passenger aircraft is influenced by passenger regulations that might have nothing to do with the basic task of moving cargo by air ¹⁰".

"The air passenger business and the air cargo business initially acted together for efficient asset utilization ¹¹", since close coordination is the best way for minimizing costs and maximizing revenues, thus filling up the compartments as wisely as possible to optimize the flight.

Since commercial air service started, carrying cargo was a common and constant practice, even though airlines specializing only in cargo transportation (such as the Lebanese TMA and the Belgium Cargolux) were rather few on the scene until nowadays. "However, the growth of passenger traffic and the institutional needs of that business caused passenger service requirements to dominate much of the air transport industry".

"The physics of aluminum tubes - the payload sections of aircraft - meant that the installation of a deck for passengers would leave empty space below that could be filled with cargo ¹²". Many airlines believed passengers to be the core business and acted accordingly, while cargo was still partially kept in the shadow. Cargo was still looked upon as an inferior business, a secondary source of income that can be used on standby basis when necessary to fill up whatever remaining capacity on the plane, only "as a contribution towards defraying asset costs and not as a special business in its own

right ¹³". Eventually the ball kept on rolling in a way that made even the established accounting systems unable to reveal exact revenue and costs facts and figures associated with the cargo business. "The lack of precise information on the cargo side of the business usually meant the cargo would be managed in intuitive ways, subject to the dictates of the passenger business decisions ¹⁴".

All of this was functioning quite well as long as the passengers revenues were high. But when passengers profits started dropping and figures on hand showing unhealthy results, due to the constant growing competition among airlines which were forced to cut down their fares, the cargo business started to become a center of attraction as an important source of income. **(Refer to Appendix 3).**

1.4 Statement of the problem/opportunity.

As Mairi McInally-kier expresses it beautifully in her article "**Freedom of the skies**", "The dinosaurs were once thought to have been evolutionary failures, driven to extinction by their inability to adapt to slowly changing conditions. It now seems that, having reigned supreme for 140 million years, they fell victim to a sudden and catastrophic change when an asteroid struck the earth 65 million years ago, devastating the global environment. One way or another the dinosaurs are no more.

Many airlines run the risk of going the same way as the dinosaurs. Seemingly secure in their home market dominance guaranteed by government subsidies and regulations, they have proved unwilling or unable to adapt even to the slowly changing conditions permitted in such an environment. If the chill winds of free market competition should suddenly reach them, they will simply expire from the shock ¹⁵".

KLM has become highly conscious of the continuous development within air freight, and accordingly has chosen to welcome these changes and to deal with them in a scientific and commercial manner. Just like in other industries, KLM will strive to satisfy customers' wants and needs in a profitable and efficient way, so as not to be left behind in the race.

The need to transform the carriage of cargo from being a core activity to a core business could no more be neglected if KLM Cargo wants to maintain its competitive edge and enhance/improve its worldwide market position as a highly ranked reliable freight carrier. This has ultimately led to the formation of the cargo division.

"On the basis of this mission KLM Cargo has worked on a strategy, strategic targets, associated service concepts and transforming fragmented cargo activities into a fully-fledged cargo division ¹⁶".

1.5 Purpose of the study.

Our main aim through this research study is to shed some light on the new KLM Cargo systems and strategies deployed to compete in this dynamic air transportation environment. We will describe the structure of the new KLM Cargo organization and, expose the guidelines observed by the company's management to achieve the agreed upon objectives. Further, we will analyze to what extent the decision of freeing the hand of the cargo division and totally re-shaping its organizational structure would be fruitful and effective in strengthening KLM Cargo's position in the cargo market and consequently benefiting KLM as a whole. Finally, we will seek to determine how sound and wise was this undertaken venture, and highlight some of comparable moves and reactions initiated by other carriers.

1.6 Organization of the paper.

The organization of the remaining chapters is as follows:

Chapter Two presents an overview of the present general situation of the cargo industry, and a brief specific look at the Lebanese air freight sector.

Chapter Three describes and justifies the methodology used for this research, including research design, data collection methods, and data analysis.

Chapter Four which constitutes the bulk of the paper, presents a short background on KLM, and uncovers the reason behind the decision for the cargo division of KLM to go autonomous. It further reveals some in-depth findings related to the newly-born KLM Cargo organization and its new established systems, guidelines and future expectations. Part of this chapter will also be reserved to assess the major pros and cons of this venture along with predicting the possible reactions from the side of other airlines.

In Chapter Five, conclusions are drawn and possible recommendations are given regarding the subject matter, along with outlining the limitations of the study in an attempt to suggest the direction that future research might follow.

CHAPTER TWO
THE GENERAL WORLDWIDE SITUATION OF
THE CARGO INDUSTRY TODAY

2.1 A quick overview of the current market trend

As previously mentioned, the cargo industry which used to be subordinated for long decades to the passenger sector, is enjoying nowadays more autonomy from the passenger side, and is on growing basis running independently its own business according to what it believes is the most efficient way. Consequently, the air freight sector which was mainly considered as a secondary activity, is taking new shapes and dimensions, and is presenting itself within the international traffic community as a strong party, both in terms of the good financial results it is showing, and in terms of the dynamic and sophisticated new innovative products/services it is offering (for example the added value services). **(Refer to Appendices 4 & 5).**

Carriers on their side are beginning to grasp that technically they are much alike, or if put in KLM's president Mr. Pieter Bouw's words, "every airline operates more or less the same aircraft, so there 's little point in competing on technological terms ¹⁷". Thus, airlines are stressing and bringing about more service offers and added value facilities to differentiate themselves from their counterparts, and to ensure an increased level of market share dominance.

Nevertheless, a fact that could no longer be ignored is that airlines are facing real financial troubles. Although some countries are still to a great extent supporting their national carriers (we herewith make reference as an example to the seven billion guilders subsidy granted by the French government to Air France ¹⁸), but whether they

liked it or not governments can't keep on bailing them out. There should be more serious private sector involvement and participation in these mostly nationally owned organizations, so as to ultimately move towards dropping the concept of public-owned flag, and relaxing the emotional side of considering airlines as national prestigious assets, in favor of a market oriented approach to decision making based on facts and figures. This would consequently unchain carriers from the strong external political pressures and influence, and high level of government interference in their private affairs. This would hopefully enable those companies to operate in a more professional, profit oriented manners. In line with that, a Report published by the European Union's Independent Air Transport (Comite Des Sages) , has strongly recommended that "state aid to public-owned flag carriers should be attendant upon striking a one time, last time agreement with the recipient. It should be linked to a restructuring plan that involves significant private sector participation and which ultimately leads to the privatization of the carrier ¹⁹". Further the Report states that "no money should enable one carrier to buy or take over another air carrier or extend its own capacity beyond overall market developments²⁰". Moreover, the Report insists that airlines "should be left free to decide on their optimum size and operating means. That is, no political interference from national governments so that airlines can deal on their own terms with the sector's over capacity problems via mergers, alliances, and buy-outs in order to face the music of international competition better. Thus, the task of dealing with over capacity should shift from government ministries to airlines using commercial imperatives²¹".

Still, the Comite Des Sages tackled another hot issue, and accordingly are strongly. "Refuting the airlines' argument that high labor costs and airport users fees are a major source of the industry's current economic crisis, the union maintains that the airlines' problem stem from ruinous competition among themselves, and their creation of over capacity - not from airport charges ²²".

Further to that, a crucial subject to point out is the fierce self distracting price undercutting war undertaken by airlines instead of maintaining a minimum standard rate level, and focusing on how to compete in some other commercial aspects such as product differentiation, market positioning, and value added services.

On the other hand, most countries have fully assimilated the very fact that in order to secure their leadership position in the world wide trade system, and establish themselves as strategical economic world centers, they should work on constantly improving and upgrading their airports, and developing the present range of facilities offered, further to adding new innovative high standard up-to-date services.

A country wishing to maintain its role and strengthen its presence as a critical pole of attraction in the global market place can no longer afford to be a simple observer on the international scene, but has to seriously work on investing on its airports, creating new ever increasing set of facilities, and marketing/promoting them efficiently to the general public. This would ultimately make from these airports typical air traffic centers in the area, otherwise the neighboring states could seize the opportunity first. Most governments have understood and grasped the idea that passengers, business men, and traders need nowadays more than a regular airport to fly and transport their merchandise to and from. They want special facilities and more comfort. They look for less time consuming gateways, quicker connections, and would be readily willing to pay more in exchange for more efficient services.

We will herewith briefly illustrate three main international airports; that of Copenhagen, New York(JFK), and Dubai, and uncover some of the characteristics that made each one of them (at least from the cargo perspective) a major and reliable gateway in its area.

2.1.1 Copenhagen airport ²³

Copenhagen airport is moving forwards at giant steps towards becoming a major European hub. The airport authority has budgeted USD 1 billion for expansion over a 10 year period.

Niels Boserup, chief executive officer for Copenhagen airport says: "the European market is in a state of change and we have shown our commitment to the constantly changing air cargo market by investing heavily in order to ensure that our facilities are the best available. More all-cargo stands and more cargo terminals are under construction, all part of the strategy to ensure Copenhagen airport is a true distribution center for the whole of Europe". One of the first acts by the new authority was to introduce competition in cargo handling by sanctioning the construction of a brand new cargo handling facility called Copenhagen Cargo center (CCC) thereby ending SAS's monopoly.

Bo Haugaard, director marketing and PR fully agrees that "competition has brought better procedures and productivity, which have resulted in transfer times and cargo handling times setting standards the rest of Europe will find hard to match". Cargo thruput has risen rapidly too. In 1991 it amounted to 189,000 tones, in 1994 it had climbed to 273,000 and the airport authority confidently expects to add a further 35,000 to this in the current year. Central to Copenhagen's drive to more cargo business are moves to promote Denmark as a distribution center. Although the state of Denmark is still a major shareholder in Copenhagen airport the management of the facility is purely commercial, and well aware that the air transport market demands high quality and low user charges. To this end the authority made a commitment in

1992 not to increase charges before 1999. In addition to its many strong characteristics, this airport shows an advantage many other rival airports lack, that of processing space to grow. Currently the airport could increase its throughput of 14 million passengers and 273,000 tones of cargo by 50 per cent and not feel the pinch and extra growing room is needed it will be available.

2.1.2 JFK airport ²⁴

JFK is the world's leading air cargo center. It connects people with more surface connections, to more places than any other air cargo center, and gets cargo to its destination in the quickest and most efficient way. Hundreds of long, medium, and short-haul trucking companies are readily available to choose from. Along with specialized express companies and a wide range of package couriers. JFK airport also offers the access to a major interstate highway system that connects people with any city in the U.S.A and Canada. Furthermore, it is located within one of the world's largest business and consumer markets. What's more, is that half of the North American continent's population and buying power is within one day's driving time. Adding to this is the unique computerized system which is peculiar to the JFK airport and that allows carriers to pre-file their cargo manifest with customs while still in the air. Which means that cargo hits the road soon after hitting the ground and help in saving of time, money, and paperwork.

2.1.3 Dubai airport ²⁵

Down the centuries it has served as a neutral meeting point between east and west, north and south. But it is only really in the last three years that Dubai has matured as one of the truly global trading hub, alongside the likes of Hong Kong and Singapore.

"Dubai is a natural distribution center with a modern airport and port facilities, offering low storage charges and labor costs", says Patrick Macdonald, deputy chief executive of Dubai Commerce and Tourism Board. "In effect Dubai offers a First World infrastructure for doing business at Third World costs". Doing business in Dubai has always been easy. There are no taxes on profits or incomes. There is complete freedom of capital movement, no foreign exchange controls, quotas or trade barriers. Import duties, where levied, are negligible.

Dubai's air freight infrastructure was given a major boost with the opening of the new Dubai Cargo Village just over four years ago. Covering an area of 300,000 square meters, the USD 75 million complex provides the most advanced cargo handling facilities in the Middle East. The facility consists of a center piece cargo building with an initial capacity to handle 250,000 tones of cargo a year. An internal handling area of 8,300 square meters has storage capacity for over 300 ULDs. There are over 30 truck docks for acceptance and delivery of cargo, and a special area set aside at one end of the terminal for the delivery of sea-air traffic direct from sea containers. Airside at the Dubai Cargo Village there is enough apron space to allow for up to four B747Fs or two B747F and three narrow-bodied freighters to be handled at any one time. With up to 20 freighter movements a day, it is apron space which is well used. Airline offices are accommodated within the main cargo terminal building and the agents have their own building immediately opposite the cargo terminal.

In 1993 the Dubai Cargo Village handled 218,263 tones of freight, almost 15 per cent up on the previous year. Cargo imports stood at just over 130,000 tones, up by 13 per cent, while exports, at 88,170 tones, were up by 17 per cent. Sultan Saeed Bin Nasser Al Mansoury, director of Dubai Cargo Village indicated in the year 1994 "we are at the stage now where we thought we would be in three years time. By the end of this year we expect to be topping a throuput of 250,000 tones and reaching our capacity limits". Plans are now in hand to call forward the 1997 projected increase in handling capacity. Sultan Al Mansoury further comments "we will gain another 50,000 tones of handling capacity by increasing the racking storage areas and building upwards", he

also explains "after that we will bring forward plans for a fully-automated handling system which will bring our handling capability up to 350,000 tones a year."

Dubai is the midway-stop for most freighter flights between Europe and the Far East: one major European passenger airline, for instance, puts in no fewer than 23 B747 freighter flights a week through Dubai. Moreover the sea-air business has grown steadily through Dubai in recent years and now ranks alongside Seattle as one of the world's major sea-air interchanges.

The Dubai air freight market is also showing signs of greater maturity to that extent that an increasing number of the larger multinational forwarders are now choosing to develop a higher profile in the local market. Previously, most were represented in one form or another through local agency agreements. Now, they are choosing to set up in their own right. Danzaz, AEI, circle and Panalpina are among the principals now in place.

2.2 A brief specific look into the Lebanese air freight situation

After some 16 years of bloody civil war and chaotic conflicts which devastated the country, ruined its infrastructure, haunted almost every house in this nation, along to paralyzing the great majority of the government's institutions, the state of peace and stability has shown up again. With this situation of recovery, started a serious and full of hope reconstruction process to raise the country back from ashes into a promised shining and prosperous future.

As it should have been expected the Lebanese International Airport, which has not been spared from this catastrophic war, remains a mere typical mirror reflecting the bad situation the whole country has gone through. Therefore, the current conditions of the national airport could be listed and summarized as follow:

a- Bad working conditions facing airport's employees, airlines staffs and agents, altogether translated into poor services and very primitive facilities being made available to passengers and traders.

- b- Old terminal, poor internal infrastructure, used partly demolished buildings, and non appropriate premises.
- c- Warehouses constructed long back ago, and designed to handle the capacity of old small aircraft.
- d- Unavailability of up to date automated handling systems or advanced computerized reservation and trucking systems, all of which is mainly being performed, whenever applicable, manually.
- e- A relatively high airport tax levied at Beirut International Airport vis a vis other modern European and American airports, while still offering very low quality services and facilities to passengers and traders in exchange. Needless to mention the high customs duties imposed on incoming merchandise.
- f- Shortage of well educated specialized staffs and highly qualified airport managers. Lack of know how, expertise, and brain power.
- g- Low wages offering to airport and government employees, which is sometimes encouraging a state of corruption ²⁶.
- h- High level of government regulations, and lengthy breath taking bureaucratic procedures, often discouraging import/export activities.
- i- The presence of some special security measures all over the airport premises giving at one hand the impression that things are under control, but yet on the other hand spreading the uneasy feeling of traveling/working in a highly restricted military zone.
- j- The presence of many conflicting official authorities at the airport (Lebanese army, customs, airport security, gendarme, civil aviation, etc.) , with each party trying to acquire the maximum possible power over the others.
- k- Non stop political interference in the airport's matters by strong government leaders, and different influential parties aiming at securing their personal interests.
- l- Finally, business wise, Lebanon is one of these countries where the ad-hoc type of business is mostly prevailing. So most airlines are the targets of day around phone calls and pressures exerted from agents trying to shave a few cents off what they feel should be the rate of the day, and ultimately fighting to capture customers that are for the

most part price driven well informed businessmen shopping out for reduced transportation prices.

Nevertheless, despite all these above listed drawbacks, a new confidence is building up in the Lebanese market's future. Thus, we are witnessing the coming back of many foreign airlines such as Swissair and British Airways. Still we are awaiting many others, some working on establishing new traffic rights into the country, and some expected to resume their flights into Beirut soon, specially once the American embargo will be uplifted from the Lebanese territories. Besides that, the local authorities have been concentrating all their efforts on re-establishing the country's infrastructure, and have spared no penny to ensure a quick economic recovery. On line with this Lebanese Ambassador to U.A.E Mr. George Habib Siam said in a special report to the Khaleej Times "Yes, we are gearing up to move into the high road to economic reconstruction and rehabilitation and investors have begun to repose confidence to help us in this task ²⁷". He further added "Lebanon is focusing attention on rebuilding the infrastructure, which is a pre-requisite to play host to a number of activities ²⁸". In his turn, Consul General of Lebanon Mr. Afif Ayyub reassured, "The Lebanese government is leaving no stone unturned to revamp the economy, improve finances and industry, contain internal security, restore the infrastructure and provide tax holidays to foreign investors so as to restore Lebanon once again to its erstwhile glory ²⁹".

Transport, amongst others, has received high level of attention, and was dedicated special care from the side of the Lebanese government due to its critical strategic importance. "The first phase of road projects are at the stage of execution. Work started include the rehabilitation of the capital's road network, the completion of the coastal highway system north to Tripoli and south to Sidon. A tender has also been issued for the construction of the motor way running from Beirut to the Syrian border, where it will join the existing Beirut-Damascus highway. A ring motor way for Beirut, costing an estimated USD 375 million, is also planned. A USD 80 million project for

the rehabilitation of Beirut International Airport is being implemented whilst a USD 430 million contract for its extension is enter tender, the stage of contract award. Also a USD 125 million project is to be tendered within the year for the rehabilitation of Beirut Port ³⁰.

Last but not least, another example illustrating the strong confidence that started building up in this country in anticipation to the crucial pivotal role Lebanon is expected to play once again in the near future as a gateway to the Middle East, SOPEX (Societe Orientale de Promotion et d'EXposition) acknowledged as one of Lebanon's leading exhibition organizers is planning to organize **FREIGHT 96**, the Middle East freight/transport/handling & related services exhibition and conference, between the 16 & 19 of may 1996 at the Coral Beach Hotel in Beirut. According to the organizers, "FREIGHT 96 will highlight the potentiality of this growing industry and provide the ideal showcase for manufacturers and service companies in the freight-related industries to consolidate market shares or gain a foothold in this increasingly important region. FREIGHT 96 will feature the latest equipment, services and developments in the fast moving freight industry ³¹".

CHAPTER THREE

METHODOLOGY

Before going on tackling the main subject of this thesis project, one should expose the methodology adopted through out this research as well as the limitations involved.

3.1 Research design

It can obviously be noticed that the subject matter of this project is a fresh recent experience that is still at its initial stages, and on which little literature exists, most of it having been written by KLM strategical planning department as guidelines for the implementation phases of this new set vision and as a monitoring tool to direct the whole process and measure its future progress. This study can be seen as a source of background information, and may be a starting strong basis on which other more elaborate and sophisticated projects could be builded up. Therefore if one would want to characterize this research, it would most probably be considered as descriptive, since the main purpose of descriptive research is to describe characteristics of a population or phenomenon. "Descriptive research seeks to determine the answers to who, when, where, and how question. Such a descriptive study, however, gives no explanation for the cause of such findings ³²". It is also worth mentioning that most of the data on hand are qualitative in nature, rather than being straight clear cut quantitative facts and figures.

3.2 Data collection method

This study relied heavily on secondary data along with some interviews, because of the inherent characteristics and peculiarities of the research paper. Most of the information were gathered from KLM's internal sources, and some others retrieved from external sources such as government and financial sources, media sources, and libraries. Although, a main disadvantage of secondary data is that they were not designed specifically to meet the researcher's need, nevertheless they have the advantage of being non expensive, less time consuming sources of information, and often reliable backup materials.

CHAPTER FOUR

THE SPLITTING BETWEEN CARGO AND PASSAGE DIVISIONS.

4.1 Summarized background on KLM, and its operation process³³.

The year 1903 was no doubt a crucial time in the history of transportation. A turning point that revolutionized and set new dimensions for the entire industry. It was the date at which the Wright brothers made the first flights in the USA with a wooden aircraft driven by an engine and propellers. Yet another factor that played a significant role in strengthening the position of aviation was the first world war, during which the construction of airplanes was greatly improved, and the public gained confidence in this new form of quick transportation, specially that at the end of 1918 the European road and railway system was completely ruined.

The first airline companies were founded. In the Netherlands, and after a successful air transport exhibition held in Amsterdam in august 1919, the plans to form a Dutch air transport company assumed definite shape. The company was established on October 7th 1919, and her Majesty Queen Wilhelmina granted it the title of Koninklijke which means royal. KLM is the abbreviation of "Koninklijke Luchtvaart Maatschappij" which literally translates into "Royal Aviation Company", however, it is better known as "KLM Royal Dutch Airlines". **(Refer to Appendix 6).**

KLM is one of the largest European based carriers in the world. **(Refer to Appendix 7).** It began its first regular service between Amsterdam and London on may 17th 1920. At that time, it was the world's first regular scheduled air service.

KLM is a private company with shares and shareholders. The majority of the shares are in private hands. Nevertheless, the state of Netherlands owns a small portion of the company which at March 31th 1991 was estimated at 38.2% of KLM's share capital. The total number of KLM staff worldwide amounts to over 25000, among

which about 5000 are located outside the Netherlands. Besides these KLM employees, different contracted general sales agents (GSA) and handling agents frequently act as representants of KLM in both sales and handling activities in various parts of the world. The KLM's fleet (among the youngest in the world) comprises of more than 80 aircraft. At the same time, KLM leases aircraft from Martinair, Transavia, Nippon Cargo Airlines, Atlas Air, Malaysia Airlines System and Air UK to assist in the increased capacity while awaiting arrival of additional aircraft. KLM's network is one of the largest in the world. Together KLM and its partner Northwest fly to 350 destinations on 6 continents. **(Refer to appendix 8).**

The hub or center of KLM's network is Schiphol airport in Amsterdam, one of the largest in the world. Another advantage of Schiphol is its location in the center of Western Europe. This explains the excellent air-sea-and rail connection with all parts of the world for passengers and for cargo. Recently, Schiphol airport began its giant alteration; the so called "Masterplan". A development in order to keep up with the growing number of passengers and increasing standards of expectations. "The aim for the future is to improve the provisions for passengers and freight to such an extent that after a period of 15 years, Schiphol has facilities for: 34 million passengers, 2 billion kilos of freight, 330,000 airplane movements. The total of this project is estimated to be four billion guilders".

4.2 KLM Cargo: A new autonomous business.

"In view of the continuous development within air freight, the transport market and the world trade as a whole, the KLM Cargo organization has become highly conscious to change ³⁴". KLM CARGO has recognized that the world is changing and markets are evolving so rapidly. The world economic map is being re drawn by emerging markets, and competition is intensifying with international players broadening their products range and developing new service offerings. Customers on their side are getting global and are becoming ever more expectant. Thus as a dynamic

firm, KLM Cargo has decided not to stand still but to react, even better, to actively anticipate incoming events and deal with them from a totally proactive perspective.

This chapter will shed light on the new KLM Cargo systems and policies established to survive in the midst of this non static environment. It is intended to expose and describe the new organization, the guidelines observed and the strategies set by the management to reach the agreed upon objectives. Also further unveil the tools and means deployed to attain the main goals.

On April 1st 1995, KLM Cargo officially launched its new organization and business philosophy and consequently stated its mission, defined its objectives and designed its strategies. To position itself to achieve its goals, the company reworked its structure and managerial systems in order to develop an environment where continuous improvement and creativity are the order of the day. "At a world press conference organized by the KLM Cargo at the Schipol airport, Jacques Ancher, executive vice president KLM Cargo announced the airline's plans for the process of restructuring. He explained the move by the airline as a proof of its commitment to a continuous process of improvement with an entirely different mindset that demands nothing short of a fundamental change³⁵". The movement towards introducing change management by KLM Cargo was rather an evolutionary process. According to executive vice president KLM Cargo Mr. Ancher, the company had realized as far back as 1985 that some aspects of its business were unsatisfactory and needed to be changed. **(Refer Appendix 9)**. But the major jump in the direction of change can be traced back to 1989 with the development and introduction of the KLM corporate programme (Vision'93) which resulted in the reconfirmation of the airline's two core business, passenger and cargo transportation, and consequently led in 1990 to the reorganization of the company into two separate divisions. Passengers and cargo are different businesses that requires different approaches. **(Refer to Appendix: 10)**. Thus unlike many other airlines carrying cargo capacity under the seats of their passengers, and to whom cargo is simply incidental to their main business, KLM Cargo has succeeded in transforming fragmented cargo capacity into a fully fledged cargo

division. Up to 1993 the new relationship between the two divisions was tried and tested, and where necessary adapted. Still, in Mr. Ancher's opinion there was no specific overwhelming reason to change, but rather a combination of internal and external factors which were reflecting the feeling that everything was not quite right, and that ultimately something had to be done in the face of the new increasing trend of liberalization, globalization, and fierce competition that the aviation industry was witnessing. Further, a courageous step was needed to enable better meet the ever changing demands of KLM Cargo's clients and provide them with more value for the money paid.

Therefore, even though vis a vis other carriers, KLM was in relatively better position than most, as it had significantly succeeded in cutting costs over the years, increasing productivity up by 17 to 18 percent and continuously improving quality as well as market position; but "at the same time KLM Cargo found itself working within an industry which itself has become increasingly more developed, a process marked by ever-increasing competition, falling margins and fast changes within the market (by both suppliers and consumers). All these developments are such that by continuing on its present policy, KLM Cargo will not be able to achieve its intended aims in terms of market position, customer preference, competitive costing and the necessary margins³⁶".

4.2.1 Outline of KLM positioning and of KLM Cargo strategy³⁷.

The mission of KLM in general can therefore be stated as follow:

"The course and task of KLM is to position itself as an airline operating worldwide from a European base, professionally able to offer discerning passengers and shippers a reliable and punctual product and a careful and friendly service at competitive costs and for equally competitive tariffs".

The kind of organization that KLM aims to be is:

- Customer oriented;
- Has a cost level at least comparable with the global competition;
- Has a good market presence and market position;
- Has an entire organization that focuses on quality, professionalism and human resources;
- Is manoeuvrable.

On the basis of what preceded, the specific mission of KLM Cargo will be expressed as follow:

" It is the aim of KLM Cargo to rank among the top three customer-driven suppliers of high-quality transport, distribution and information services".

In support of this objective, KLM Cargo will:

- Strengthen its line-haul position, quantitatively and qualitatively; where necessary for reasons of scale, it will enter into network-alliances; e.g. with Northwest, Emirates airlines, and Malaysian airlines.
- Design services specifically aimed at the high end of the markets, which it will serve punctually, professionally and competitively; where necessary for reasons of scope, it will avail itself of means outside its own network of services and offices;
- Operate on all the world's main routes and in all the world's main markets, but particular emphasis will be put in its market presence in Europe;
- Continue to respect its traditional distribution channels, but it will actively seek direct or alternative distribution channels where this is required;
- Ensure that its organization allows to optimize market effectiveness, operational efficiency and contribution to KLM's results, while due consideration is given to the well-being of its staff and the environment.

Five concrete strategic aims are formulated as part of the strategy:

1-Creating a Triad linehaul network (between the three main world markets):

- Improve position of KLM on North Atlantic and Far East routes;
- Realize or operate as if under open cargo skies';
- Route and network alliances.

2-Creating continental distribution:

- Improve position of KLM Cargo in Europe;
- Acquire positions in North America and Far East countries;
- Regional and continental alliances.

3-Interfacing linehaul distribution:

- Establish multi-hub operation;
- Out-place non-hub handling;
- Combine handling with partners; a.o. CSC's.

4-Creating commercial distribution position:

- Re-orient relations with intermediaries;
- Create (affinity, franchise) forwarding network;
- Alternative distribution channels, a.o. CSC's.

5-Improve organizational position:

- Focus experience and structure of KLM Cargo;
- Adequate control frames for alliances;
- Net contribution of division to company results.

To accomplish its mission, KLM Cargo will have to turn itself inside out, says Mr. Jacques Ancher with a need for an organization that is flexible and customer-oriented. Needless to mention the necessity for the company to establish a cost level which is comparable to the global competition, and even if possible lower. Besides that it should actively seek for a leading market position, and presence, and focus on professionalism and quality. To achieve these objectives, it was of utmost importance

to cut down on bureaucracy and transform the organization from its old rigid vertical hierarchical structure to a flatter organization which embraces horizontal processes, empowering front-line employees, delegating to them authority, and encouraging them to be creative and assume responsibilities. In brief, and in KLM Cargo vice president's own words: "In future we will tailor our service to each and every large company operating worldwide, so that it will be a dedicated product, brought to you by KLM 38".

Naturally, this corporate transformation was carried forwards in parallel with a behavioral change amongst employees, intended to facilitate the necessary change of mindset in KLM Cargo, and was practically translated by running awareness courses, training seminars, interactive workshops, personal communication and through instituting a regular transition journal and other mass media tools.

"The transition cost KLM Cargo USD 15 million in automation and in 1995-6 another USD 25 million will be invested on computerization which will make sure that everyone has access to information to make a decision 39".

4.2.2 KLM Cargo's new structure. (Refer to Appendix 11).

The new flattened KLM Cargo organization will consist of:

* Three disciplines:

1-Factory or operations:

Factory carries the ownership of the operational network. It is responsible to build products offered around the world, develop services, control costs and meet agreed quality levels.

2-Sales:

Sales is located outside the shop, anywhere in the field actively seeking new business, negotiating and making contracts with customers, tailor making products and high-value services. Sales is responsible for turnover and should decide which products will be on the shelves and for what prices.

3-Customer services:

Customer service runs the shop and maintain a close relationship with the customer. Worldwide customer services responsibility for the total cargo division. Inside the shop, transparent services and standard products with well known prices are offered. Customers are referred back to the sales department when customizing or bargaining is called for.

On the strength of the above, to meet the changing demands of the cargo industry and better satisfy the customer's needs and wants, KLM Cargo has introduced two distribution channels. One offering pre-defined, pre-priced standard products that can be directly ordered all over the world without the need for much sales efforts. The other providing customized, tailor-made products and value added services negotiated through a sales person.

* Five Business Units (BU):

A Business Unit is defined as an organization with a clearly defined market/customer base with clearly defined services, having their own bottom-line and operations and sales responsibility dynamics. It is responsible for its own marketing, sales, pricing, capacity, factory and administrative control ⁴⁰".

1-Special Cargo Unit

"As is true for the other Business Units, Special Cargo has its own defined customer base and it is responsible for its own marketing, sales, pricing, capacity, operations and administrative control. Special Cargo will make provision to give its customers the best personal service possible, even if this means going beyond the blue to organize it ⁴¹". It is responsible for such cargoes as perishables, valuables, live animals, dangerous goods, medicals and chemicals.

2-Mail

Mail, remains a very important product carried by aircraft. Nowadays Post Offices worldwide are forced to compete with very powerful private companies, and consequently provide superior levels of service in order to survive. The KLM Cargo's Business Unit Airmail Service which groups a large number of professional staff, has been organized to service the needs and increasing demands of the different national postal authorities.

3-IT

Information Technologies are defined as all mechanical or electronic devices - as well as a standard set of procedures that increases the natural human capability of transmitting, storing, and processing information ⁴²". It is through the wise utilization of IT tools that KLM Cargo will be able to achieve its aspiration for a brighter future. The responsibility of this department is to offer wide ranging support covering the whole organization, to ensure the aggregate groups worldwide are able to communicate and work efficiently, and that data can be transferred securely and immediately. The function of this unit will be key as the Division migrates towards providing air logistics services.

KLM Cargo has currently been present, since 13 May 1996, on the Internet system to enable customers around the world to see and read all kinds of information about KLM Cargo. Internet could become a potentially powerful sales tool and KLM Cargo is closely looking at the advantages it can have for sales staff.

4-Cargo Service Centers

Cargo Service Center is a wholly-owned subsidiary of KLM Cargo, set up to develop and offer worldwide, high-quality ground handling, warehousing, transportation and documentation services to carriers - including KLM Cargo and other customers, such as shippers and forwarders. The goal is to provide uniform but flexible services at every major airport worldwide, adhering to similar quality standards, procedures and performance guidelines. With an established network of over 50 offices spanning the world and highly professional and dedicated staff ready to

handle all matters pertaining to distribution and transportation, CSC is flexible enough to meet the wide-ranging customized requirements of its customers. Cargo Service Center will assist its client in taking care of the necessary paper work as well. Notwithstanding that a certain destination is not served by KLM, Cargo Service Center can still be of help and arrange transportation through another airline or a combination of air and surface mode.

5-Logistic Services

"This Business Unit is still in its naissance, its responsibilities yet to be fully defined. This is because its role is to pull the Division's migration up the distribution ladder, away from being a simple transportation vendor and on towards being a company that is capable of providing a full multi-modal logistics services for customers. At this stage in its development, the BU Logistics is responsible for:

- * Investigating the pros and cons of the Division moving towards becoming a full logistics services provider;
- * Defining the necessary tools, conditions and capabilities which would be necessary for the Division to provide full logistics services, and providing the commercial feasibility of such a move;
- * Creating a structured support team capable of serving those clients who have expressed an interest in migrating towards full logistics;
- * Raising awareness within KLM Cargo of the potential for the Division within the full logistics arena ⁴³".

* Seven Staff departments:

1-Personnel or Human Resources

It is the department responsible for recruiting employees and see that staff measure up to the task in hand. They specify what is expected from each employee for the job and help providing appropriate training. In addition, they are there to ensure that line managers maintain the company's position in such matters as labor law compliance and compensation and benefits packages.

2-Accounting and Controlling

They are the ones responsible for the financial accounting of the Division and it's up to them to make sure that KLM Cargo's staff comply with internal and external financial controls. They are also tasked with providing all manners of management advice and information that is crucial to proper planning, asset utilization and investments. The department is split in two: Controlling and Accounting. In brief Accounting takes care of regulating the income and outgoing side of things - money in and money out - while Controlling takes care of the financial overview, analysis, budgeting, forecasting and provision of management information and advice. Accounting is organized through five Accounting Houses, located in Amsterdam, Frankfurt, New York, Singapore and Dubai. Controlling is organized via dedicated controllers assigned to a department or group of departments.

3-Communications

"The Communications department is charged with developing and implementing professional, effective internal and external communication plans and procedures. The unit's work range from giving guidelines on public relations and media management policy to advising on the generation of product publicity and packaging, from creating KLM Cargo's worldwide advertising campaign and orchestrating management conferences to managing the company's internal and external publications, such as *Cargo Carrier* and *Cargovision* ⁴⁴".

4-Business Planning Systems

"It is charged with providing the entire organization with the appropriate objective information that will allow managers to make good executive decisions within the overall Division business plan, and it defines and monitors internal trading rules. Further, the department gives guidance on how KLM Cargo can best align its business processes in order to fulfill strategic objectives while at the same time

ensuring optimal financial return - a process known as System Profit Management (SPM).

Much of what the Business Planning Systems team does comes down to scenario planning: they look at all the angles - economic, political, geographic and relational - and apply them to dynamic situations. So, for example, they look at what might happen to KLM Cargo's performance indicators on a particular route if pricing, capacity, competitor activity or local influences change ⁴⁵.

5-Cargo development

This is the ideas department. It's charged with developing KLM Cargo's strategy in the light of developments throughout the world of trade, transport and technology.

6-Quality

"Today building continuous improvement into your management systems is an imperative for all customer-oriented businesses. Thus the Quality support department is tasked with developing, implementing and administering the quality management system, using European Foundation for Quality Management methodology. It does this in conjunction with line managers, and with them continuously reviews these standards ⁴⁶". KLM Cargo is thriving to attain a position where it can apply for the association's prestigious European Quality Award within two or three years.

7-General Affairs

"This department is the glue that keeps the Division Head Office functioning. It makes sure that things are accomplished on time, organizes management meetings and administrates KLM Cargo's interface with outside bodies, such as IATA ⁴⁷".

4.2.3 Background to KLM Cargo's new market approach ⁴⁸

Most airlines' economic models were developed for reasonably predictable markets, which consequently becomes of little use in an era of rapid change. For this reason KLM Cargo decided to devise its own tool kit of models to exploit market and competitive information:

a- Market Segmentation

This graph identifies various market segments each of which has to be serviced in a different way. Those segments can be distinguished into two main groups: the intermediary and end user. **(Refer to Appendix 12).**

On the one side, the most intermediary segments are situated in the lower left quadrant (consolidator, forwarder,...). These latter will make use of KLM Cargo's generic transport services, which will then be packaged and supplied to the end users. This situation has caused both the airline's margin and contact with customers to be slowly eroded. On the other hand, the majority of the end user segments are situated in the upper right quadrant. In this area are represented customers with the willingness to pay extra money for value added products. Therefore, a very close contact should be maintained with those clients to ensure tailoring specific services to each of them.

b- Market positioning

KLM Cargo currently derives 75% of its income from the lower quadrant. To strengthen its market position and decrease its vulnerability, KLM Cargo must seriously work, inspite of all the opposition that can be raised, to make a move along the distribution chain to reduce the percentage to 50%.

The upper and lower quadrants can be differentiated as follows:

<u>Lower left quadrant</u>	<u>Upper right quadrant</u>
Efficiency	Effectiveness
Low complexity	High complexity
Order taking	Selling
Commodity cargo	Value Added Product

c- Business positioning

With the purpose of achieving a 50% figure in the upper quadrant, KLM Cargo will have to slow down its activities in the lower quadrant, while concentrating its efforts to better serve the end users by actively attracting new customers and offering an increasing number of value services. "Added-value services lead to higher revenue, while added costs do not increase as much".

The business positioning methodology identifies six stages. **(Refer to Appendix 13)**. All stages represent a logical sequence in increased functionality (the Y-axis) over time (the X-axis). The systematic upward movement to the right is translated into the ability to offer more value added to clients, a process that can be achieved in a step by step manner. The lower three stages have been identified as: Air Operator, which offers the capacity of the aircraft; Airline, which offers structured and scheduled point-to-point connections; and Air network, which offers a distributed network with a central hub. As for the upper three stages, continued evolution could bring: Air logistics, which offers added-value services on the basis of an air network; Full Logistics, which offers added-value services on the basis of air and ground network; and Supply Chain Management, which offers the management of the entire logistics chain.

In each stage of the migration, the notion of (assets) acquires a new meaning. An Air Operator's principal assets are the aircraft, that of the Air Network is capacity, while in Chain Management the assets are the staff who establish and maintain relationships with customers.

At the present time KLM Cargo is in the process of moving from Air Network to Air logistics. For this, it will be fair enough for the organization to develop new skills and expertise, and adapt to this change by offering a wider new type of different services. This migration undertaken by KLM Cargo is an important move since first of all it will enable the airline to improve its role from an operator of transport and distribution services to that of a provider of such services. And second it will prepare KLM Cargo in acting as a future provider of logistics on behalf of third parties. Specially when we notice that many companies are realizing that physical distribution is neither their core business nor an area in which they excel, thus outsourcing, the devolution of internal functions to qualified third parties while still retaining overall control, is on the increase.

Finally, if KLM Cargo were to realize this migration within the present Business Plan period (1996/1997), the following objectives have to be met:

- 1- The creation of a global network around the three main world market (Europe, North America and Far east). Objective: 15% world market share for KLM and Northwest in 1996/1997;
- 2- Protection of the traditional airport-to-airport operations because of continued pressure on the cost and income developments. Objective: 50% revenue in 1996/1997.
- 3- Generation of the necessary added value to be able to compete in the end user market. Objective: 50 % revenue in 1996/1997;
- 4- Organization of a migration path which should be a balance of a traditional and logistic markets;
- 5- To adapt the organization so that it will allow KLM Cargo to effectively realize its strategy.

4.3 Other carriers moves and reactions

As it would have been expected, KLM Cargo has not been the only one fighting to acquire its autonomy from the passenger division. Very few companies have been able to gain their autonomy as well. On top of whom was Lufthansa Cargo which had finally achieved its long sought independence from the Lufthansa mother company at the start of 1995. Others, such as Air France, Emirates Airlines and Swissair, are learning the lesson and aggressively following suit, while many other airlines are lagging behind, and operating the old classical primitive way. **(Refer to Appendix 3).**

But nevertheless, it seems that none of the mentioned carriers had really undergone the extra mile KLM did by restructuring in depth its cargo division, separating and defining each discipline, setting its strategies, and clearly revealing its future market approach to the external public.

One should briefly highlight some of Lufthansa Cargo's experience as an independent entity and the reasons behind this division being granted a free hand. Lufthansa had spared no efforts for the last two decades to acquire the treatment of an independent business in its own right, and had finally been rewarded at the beginning of 1995. The argument behind claiming autonomy was solid enough. Air cargo has greatly evolved to become a serious global business, which needed full dedication and special logistic services. "Every airline has to make the decision about whether to be a cargo company or a passenger carrier just selling space in aircraft belly holds ⁴⁹", says Mr. Wilhem Althen, chairman of Lufthansa Cargo, "Lufthansa has made its choice clear ⁵⁰". On the other hand, this step undergone by Lufthansa Cargo to operate freely, increase its global network and form new separate alliances, was badly needed to match the growth activities and changing expectations of its international clients. As it is about to complete its first year as an independent entity, Lufthansa Cargo has been showing promising sales growth and generating good level of profits. Mr. Althen further explains that, in the past with cargo and passenger services combined and interrelated, it would have been nearly impossible to clearly determine the financial

performance of the business. "Lufthansa ended 1994 with cargo revenues of around DM 3 billion, but that should climb to DM 3.5 billion in 1995, and could reach DM 4 billion in 1996. At these levels, cargo comes close to accounting for a quarter of Lufthansa's overall traffic sales ⁵¹".

Under the old way of doing business, cargo was kept in the shadow and was highly influenced and manipulated by the passenger sector. The subordination of the cargo interests to that of the passenger division could best be illustrated by the example given by Mr. Althen: "Cargo had to pay for one advertisement in every seven published in the German national press, in line with its share of group revenues, regardless of the fact that the media might be grossly inappropriate and in most of the times didn't bring in one additional kilogram of cargo ⁵²".

Fortunately enough, unlike the passenger division, the cargo business is promising to generate increased yields with the emerging of consciously aware customers willing to pay extra money in exchange for increased quality. Finally, chairman Althen proudly reveals that Lufthansa Cargo has received job applications from employees wishing to shift from the passenger division, an action which would have been considered in the near past as a punishment rather than an opportunity.

CHAPTER FIVE
FINAL FINDINGS AND CONCLUSIONS

5.1 Summary.

- ◆ In this chapter we will quickly review the main points of interest of the KLM Cargo splitting/restructuring process, and try to assess the extent to which the new market approach decision has been effective and successful.
- ◆ To make a long story short, KLM Cargo is aiming to rank among the top three customer-driven suppliers of high quality transport, distribution and information services. For that, a major split from the passenger division took place along with a radical restructuring of the entire freight section. The purpose of it was to create a flexible and customer-oriented organization focusing on quality services and professionalism, and at the same time able to reach aimed at objectives at competitive cost levels. In compliance with this, the shape of the organization has been redesigned from a vertical structure associated with lengthy line of authority/command and hierarchical functions, to a flat horizontal process that would empower front line people and allow plenty of room to creativity, added responsibilities, and decision making down the way. Through its futuristic outlook to the general freight situation, and in order to maintain its leadership position in the market place, KLM Cargo is seeking a balance between core transportation activities and added value logistics, providing more convenience for customers in order to capture their preference. For instance KLM Cargo has been a pioneer in introducing door to airport services and specially in applying throughput time techniques. The balancing of both functions includes the insourcing of additional facilities, such as for example, alliances with other carriers to build out a network with mass market presence and find scale synergism, specially that by the year 2000 only limited number of Super Cargo Systems are likely to exist.

- ◆ No doubt that KLM Cargo is a dynamic proactive company, building up future scenarios and actively previewing contingency plans to face all anticipated probable events. Based on Philip Kotler's Marketing Management book, "there are three type of companies: those who make things happen; those who watch things happen; those who wonder what happened ⁵³". KLM Cargo would certainly fall into the first category.
- ◆ Therefore KLM, one of the oldest cargo carriers should be credited for the tremendous efforts deployed to adapt to the environmental changes and market demands. "Companies, like people, respond to aging differently. Some grow old gracefully. They remain clear headed enough to realize that they must either regenerate or die. Some, however, handle the passage less gracefully, clinging to a view of the world as it was, becoming defenders of the status quo, and burning up scarce energy swatting at those who threaten their strategic myopia ⁵⁴".
- ◆ After around six months since the public launch of the new KLM Cargo, the general feeling, as expressed by executive president Jacques Ancher, is that matters have progressed very smoothly and much better than anticipated. The business is benefiting from the new market approach and KLM Cargo's performances are better than the market average. **(Refer to Appendix 14)**. On another occasion, a year after the launch of the new KLM Cargo organization, vice president KLM Cargo Jacques Ancher clearly stated "we have solid evidence that we have improved our results in respect of all three KLM cornerstones; market presence, competitive costs, and customer preference. Our market share is expanding some 10%. We have achieved double-digit growth year-in year-out for a long time now, making us the fastest-growing freight carrier in Europe". **(Refer to Appendix 15)**. This could have not been attainable without the creation of a special general atmosphere of enthusiasm, whereby company's employees could actively be involved in the communication process and emotionally committed to their work. "A series of gatherings preceeding any moves were organized to ensure people at every level were fully informed of what was being planned. We gave our people the

opportunity to have their say and asked them how they saw their role in the new organization, that ensured we debated the issues before the event instead of after", Mr. Ancher points out. **(Refer to appendix 15)**. The transition was carefully prepared through planning training programmes, seminars, meetings, and offering them to various staff. Further, members were empowered to take quick critical decisions and were supported to think creatively. But this of course would not mean anybody acquiring freedom to the extent of interfering in everybody's else business. **(Refer to Appendix 9)**.

- ◆ KLM Cargo has nevertheless suffered from a fall in load factor over the past few months. **(Refer to Appendix 15)**. This mainly occurred because KLM Cargo started heavily renting capacity from other airlines, and signing space contracts with these latter, in expectation of a major growth of in the industry, and in anticipation of a high demands on its products following the aggressive implemented sales strategies . However KLM Cargo's capacity had grown by 19 percent, and this has coincided with a sudden dip in the global market demand. But These results were a reflection of the overall slow down in the industry rather than being directly related to KLM Cargo's own performance. Furthermore a market recovery is expected in the second half of the year 1996.
- ◆ KLM Cargo has therefore completely reviewed its worldwide sales structure, whereby sales representatives were given free hand to formulate customized solutions for customers all over the world. This has been planned by intensively retraining the sales force, refocussing its performance criteria and equipping each individual with state-of-the-art technology. KLM Cargo sales personnel are now designated Business Development Managers, reporting directly to their appropriate Regional Director and able to engineer a logistic chain and offer prompt reliable solutions to every client's needs without having to check out all the details with their supervisors. This decision, which seems to be promising, was undertaken based on the fact that nowadays customers operate on an increasingly global scale and complex business environment, and since sales people are the one closest to

the clients and decision makers, and are therefore the most appropriate group that can understand the customer's business, it would be only fair that salesmen have enough authority to negotiate and take decisions on the spot. In that same prospect, each Business Development Manager has been entitled to a networked personal notebook PCs that would make of him a mobile logistic engineer. From their portable personal notebook PCs connected with a central database in the Netherlands, sales people are able to call up information, evaluate customer history, present alternatives and print out customized contracts. We consequently could not but admit the benefit of such process which will probably promote better understanding of KLM Cargo's customers' businesses and create opportunities for the sales force to provide greater added value services, thus become more involved across the logistics chain and ultimately meet the specific demands of each particular client.

5.2 The KLM Cargo market approach.

- ◆ Perhaps one of the main KLM Cargo strategies, but certainly the one that received the highest level of attention and feedback from the side of forwarders, is the issue of ignoring the forwarders' role and going direct to shippers. **(Refer to Appendices 16-17-18)**. Reactions from forwarders were divided between some who were realistic enough to live with it, come forward seeking more information and sharing KLM's vision of the future of the industry, and further try to find ways to fit in this transportation transaction. Others strongly criticized this policy and were totally opposed to it, as they saw in it a real danger in the face of their business interests and a direct threat to their very existence. The purpose behind KLM Cargo's approach was to create a greater transparent relation with shippers, to appeal to different market segments (mainly intermediaries and end users) and try to establish a balance (50%-50% revenue) between traditional and logistics services. Thus KLM Cargo is intending to continue to respect its traditional

distribution channels, but will actively seek direct or alternative distribution channels. This migration towards so called supply chain management, with all the goodwill it might carry, has nevertheless been in a way or another, trying to limit the forwarder role and eliminating them from the overall transportation process and was consequently faced with a lot of rejection and dissatisfaction from the part of many reputable forwarders (e.g. AEI, Emery, Kuehne and Nagel...⁵⁵). This approach might turn out to be a very risky venture undertaken by KLM Cargo, specially when we have to admit the great deal of experience intermediaries have acquired all over the years, through working closely with their shippers in providing them with logistics services and door to door deliveries. Still in the point of view of Executive Director of Air Cargo World journal Mr. Jim Foster "KLM doesn't ignore the forwarder in discussing its new strategy. In fact, it confirms in its press releases that the forwarder accounts for 95% of its business. However, officials go on to say they find the varying roles of the forwarders to be confusing and complicating. They say that the forwarder can be the customer, an intermediary or a competitor. Aside from saying that it will be difficult for the forwarder not to be hurt by its new strategy, it offers no direction to loyal customers as to how they might participate in KLM's new world ⁵⁶".

- ◆ In KLM Cargo's management opinion, their strategies have been misinterpreted and misunderstood by a large number of forwarders. This situation clearly reveals the need for still further communication to be initiated by KLM Cargo, and ensuring that this communication with the forwarders is a two way process that would enable a mutual understanding and find a common ground on which both parties can meet. Eventhough KLM Cargo has been through out its transition process publicising its views and policies, nevertheless KLM Cargo was largely preoccupied with building up the internal organization, on reshaping its old structure, and working hardly on solving the interface problems between Passage and Cargo, and within the cargo division itself. KLM Cargo is seriously looking now into, and working on focussing all its efforts on its external publics, and

establishing a clear code of conduct to define KLM Cargo's relationship with external parties, specially with the forwarding community. **(Refer to Appendix 19).**

- ◆ But regardless whether this planned strategy will be fruitful or not, it should be clearly underlined that KLM Cargo is not doing something that the air cargo industry isn't. Cargolux, Swissair, Lufthansa, etc. are directly delivering shipments to the door of their customers. Cargolux carries Western Digital's shipments and delivers them to Nedloyd's warehouse in Amsterdam, Swissair handles the SGS Thomson shipments to St. Genis in France ⁵⁷, and still according to its executive board chairman Mr. Wilhelm Althen "Lufthansa Cargo AG has no qualms about dealing directly with shippers ⁵⁸".
- ◆ The main difference between KLM Cargo and the other carriers is that the former has shown more honesty and integrity to share its strategy with the world, rather than doing it on the quiet as most other did.
- ◆ KLM Cargo has been very serious about reshaping the whole organization and remolding old set of procedures. It has incurred considerable amounts of transition costs in trying to get closer to its clients, in learning the art of customer-focused quality, and in committing itself to meet various customers' requirements. But a quality-driven success could gradually recoup those initial investment costs. As quality processes are created, KLM Cargo's own people will react. Clients will respond. Customer satisfaction and pleasure in doing business with the company will spread and increase with it customer retention rates. Market share will expand, profits will increase and employee turnover decrease. Furthermore, customers are no longer perceived as an abstract average but instead as individuals that needed to be answered with different solutions. If you don't act quickly to solve a problem, someone else will. While the Industrial Revolution brought mechanized production on a large scale, technological advances allow a reversion to customized products and services.

- ◆ In studying hundreds of products and services, the authors of "Agile Competitors and Virtual Organization: Strategies for Enriching the customer", have unveiled the distinguished qualities of agility. **(Refer to appendix 20)**. Based upon the mentioned criteria, KLM Cargo would very easily be attributed the qualities of an agile company.
- ◆ On the other hand, by splitting from the passenger division, KLM Cargo acquired a full scale of independence that would enable it to transform the fragmented cargo activities into a fully fledged core business that should be treated the way it deserves. This way KLM Cargo will be in a position (unlike in the previous situation, where the cargo division was subordinated to the passenger section) to better concentrate on the freight industry, upgrade and diversify the services offered, and properly monitor performance and promptly adjust strategies when needed. **(Refer to Appendix 3)**.
- ◆ A point worth to be highlighted here is that the split within KLM created, at least in the preliminary stages, some kind of confusion to the external publics (customers, agents, handling agents, general sales agents, etc.) in terms of how to relate to these new two independent entities? What is the new rapport to be established with each one of them? What is clearly the new hierarchical system? What are the drawn line of commands and authorities? Whom to report to? Etc. This puzzling situation specially arised due to the fact that cargo departments of most airline companies are generally still closely influenced by the traffic division, and the practice has always been and is usually still followed in many situations to refer back to the management of the passenger organization when cargo matters are involved.
- ◆ Another issue to be addressed is the tendency of over specialization KLM Cargo is heading towards. In many cases multiskills, job swaps, scrapping of the demarcation lines of conducting daily business activities, and the ability to perform many diversified roles has proven to be rewarding. Unlike this, the restructuring within the KLM Cargo division took place by defining several different disciplines

and assigning to each one of them some specific tasks and job descriptions. The main purpose behind this was to enable each discipline to better concentrate on its daily activities, and staff to become specialists with specific professional skills. Although this management approach could very much work and be extremely helpful in a large company, nevertheless it might as well create within the staff members a feeling of routine and automate job functions, and end up with over specialized employees lacking diversified freight knowledge and being able to perform well only in few limited domains. **(Refer to Appendix 3)**. Nevertheless, on the higher management level, the transition from all-round cargo manager to specialist seems to be a sound step, since it will relieve managers from the initial high tension state, whereby very condensed, and expanded level of authority/responsibility was delegated to them, which therefore required from a cargo manager an extended amount of knowledge and expertise in most cargo fields.

- ◆ Finally, what makes of KLM Cargo's transformation a unique experience is the fact that almost none of the other carriers had undertaken the extra mile KLM did in restructuring in depth its cargo organization, separating and defining each discipline, setting specific strategies and targeted objectives, and moreover, clearly revealing its future market approach to the external public. So KLM Cargo went through a double revolutionary change from the outside by splitting from the passenger division, and from the inside by radically revising its organization structure. All of these steps constituted indeed a huge departure from the traditional way the industry is functioning.

5.3 KLM Cargo's European management system and corporate culture as viewed and assessed from the American perspective ⁵⁹.

KLM Cargo's managerial practices and values will be addressed and evaluated through the United States' management experience, as described by T. Peters and R. Waterman ⁶⁰. Eight characteristics of excellent American companies that reflected highly distinguished performance will be described and compared to the KLM Cargo's management practices. These characteristics are as follow:

- 1- Bias towards action.
- 2- Closeness to the customer.
- 3- Autonomy and entrepreneurship.
- 4- Productivity through people.
- 5- Hands on, value driven.
- 6- Sticking to the Knitting.
- 7- Simple form, lean staff.
- 8- Simultaneous loose-tight properties.

1- A bias for action.

In today's ever changing world, companies find themselves interacting in a highly complex environment. Excellent companies know how to deal with their surroundings, study the internal and external environmental factors, closely coordinate among different departments, and form committees in such techniques that simplify their systems. Their mechanism include a wide range of action devices in the area of management systems, organizational fluidity, and experimentation.

A- Organizational fluidity fosters action orientation. The informal communication system and the use of ad hoc devices facilitate quick action and organizational fluidity.

i- Excellent companies create an informal environment for their employees, encouraging them to communicate frankly and openly among each others. Insistence of calling people with first names, the open-door policy, and management by walking around MBWA; all demonstrate the willingness and attitude of excellent organizations toward breaking down communication barriers. Therefore enabling more close interaction, better experimentation and learning process, and eventually facilitating prompt action, decision making and problem solving.

ii- Ad hoc devices could be teams, task forces, project centers, quality circles, etc. which do not have a formal organizational structure, but are mainly formulated as a specific problem solving tool for a specific duration. These task forces consist of small groups of people with an optimal group size of seven for flexibility purpose. Membership in these task forces should be voluntary which makes it more productive, while demonstration is informal.

B- Experimenting organizations have experienced solid success. It is through experimentation that creativity is enhanced. Excellent companies always encourage experimentation and repetitive testing. Experimentation acts as a form of low cost learning and could be more useful than expensive market research. The most important participant in the experimentation process is the ultimate user of the product or service.

P & G tests and tests and tests. You can see them experimenting in the market place for months and years. They leave no stone unturned, no variable untested, and finally when they launch their new product, nobody dare stand in their way.

Similarly Texas Instruments are amazing in that respect. Its willingness to progress, its ability to learn quickly, to get almost anything out in the field is surprising. Having started as a very small company, they found themselves giving a hell of time to giant competitors in the semiconductor area, because of the courage they had to go out and try to make things happen, rather than keep theorizing in their laboratories.

KLM Cargo organizational fluidity is clearly noticed among its staff in their daily activities. Communication is encouraged between different departments and disciplines, or even better, open interaction and exchange of points of views are insisted upon through mandatory periodical meetings.

Several ad hoc devices are also used for finding quick solutions to specific problems, such as the transition committees assigned to monitor and ensure a smooth transition from the old organizational structure to the newly established entity.

As for experimentation, theories and concepts are developed, new products and services are tested on a small geographical scale prior to the global launching and implementation. As a commercial example, the thruput time concept is now a worldwide KLM Cargo adopted technique after being gradually implemented in different subsequent geographical areas. Another example would be the new on line computerized communication system which has been introduced in few countries, tested and adapted when necessary, then installed on a global scale.

2- Close to the customer.

Studies shows that excellent companies are really close to the customer, not just talk about it. They systematically interact with their customers. Customer orientation is a core element in their strategy formulation for service, quality and reliability.

A. Service.

Good companies mobilize all their efforts to render the best service to their customers and stress best on after sale services. They care for their customers' satisfaction which is regularly measured for better enhancement of services. The term customer includes external customers as well as internal employees. Customer focus would be emphasized best through intensive training programs.

Joe Girard, a car salesman is the typical illustration of what service obsession could be. He sold more new cars and trucks, each year, for eleven years running than any other human being. Simply because of his everlasting thirst to serve his clients, and his unbeatable care to sincerely satisfy them.

Effective service orientation programs should have at least three principal themes: (1) Senior management should be actively involved in the process. Their commitment should start with the company's philosophy. The mission statement should include a description of a commitment of the companies' excellent services. When service is delivered at excellent quality, profitability should naturally follow. (2) Excellent services can only be rendered by the means of excellent employees.

Since the human factor is an essential element in this process, excellent people are to be maintained through ever-changing rewards and incentive programs, proper training and special attention. (3) Customer satisfaction measurement is an important element for better customer servicing. Regular feedback will assist management for better quality service.

B. Quality

Companies grow and succeed because they remain loyal to their customers. Loyalty means providing uniform and quality product service at all times. As companies achieve quality, profitability and growth should eventually follow. Quality programs should have a well designed reward system (formal and informal). In the excellent companies, quality goals are built in their MBO programs.

Staying close to the customer and serving him better requires a 'niche' where one shall be better at something than anybody else. To properly serve the customers, the excellent companies divide their customer base into segments so they will provide tailored products and services.

Customer orientation has been proved to be stronger than cost or technology orientation. Several research studies have confirmed this hypothesis. Closeness to the customer also means listening to him very efficiently. Most of the real innovations of the excellent organizations come from the customers themselves who are considered as partners in the business.

Caterpillar offers its customers forty eight hour guaranteed parts delivery service anywhere in the world, and if they can't fulfill that promise, the customer gets the part free. The companies main principles are excellence of quality, reliability of performance and loyalty in dealer relationships.

Mars, Inc., a very successful company considers high quality as paramount. At one time a Mars executive discovered an improperly wrapped batch of candy bars and hurled the entire inventory, one by one, at a glass panel in a boardroom while frightened aides looked on.

The mission of KLM Cargo clearly reveals the focus and attention it is extending its customers with: "It is the aim of KLM Cargo to rank among the top three customer-driven suppliers of high-quality transport, distribution and information services". Needless to mention the high level quality standards it has strictly set to itself. Moreover, to facilitate the necessary change in mindset and behavior amongst its employees, KLM Cargo started running out early awareness courses, training seminars, interactive workshops and openly encouraged personal communication and constructive exchange of ideas.

All of this clearly stated in one of KLM Cargo's cornerstone values, that ensured that while operating its business, utmost consideration will be given to the well being of its customers, its staff, and the environment as a whole.

KLM Cargo will try best to fulfill their own ISO-awarded quality standards and, in addition have their internal measurements which analyze how well their 'internal client market' is performing.

On the other hand, a worldwide annual appraisal is conducted, whereby best people in each post/category are nominated and consequently awarded during a central ceremony held in Amsterdam. Employee satisfaction survey forms part of KLM Cargo's determination to establish Total Quality Management within the organization. Since 1992, the EFQM method of total quality management (Stands for European Foundation for Quality Management", has been adopted by KLM Cargo. EFQM is an organization that has developed guidelines in such subjects as leadership, customer satisfaction, and business results. The organizations aim is to support companies to improve their business practices continuously and systematically.

3- Autonomy and entrepreneurship.

Excellent companies are big entities nevertheless, they act as small. 'Small is beautiful'. Through providing decentralization and autonomy to everybody down the ladder, they encourage innovation entrepreneurial spirit. These excellent companies provide opportunities to innovators who want to succeed and become champions in potential markets.

While creativity is thinking up new things, innovation is doing new things, i.e. implementing the ideas. Therefore it is worth mentioning that creativity does not lead to innovation if it is not accompanied with the responsibility of action-orientation.

The attributes of a successful innovative environment in excellent companies are as follow:

- i- Playing the numbers: excellent companies allow sufficient time and chance for the innovative ideas to succeed.
- ii- Support for champions: without proper support, innovative ideas will not work.

iii- Sub optimal divisions: as excellent companies grow in size, the size of its divisions will grow as well. But, reorganization of these large divisions is necessary into further divisions.

iv- Internal competition: as competition in the market enhances product quality, the same applies to the internal 'market' organization. In excellent companies, clean competition is encouraged among staff since competitive environment creates innovative ideas.

v- Intense communication: the innovative process best succeed only in an easy and open communication system. The working environment should support the easy flow of information. An informal and intense communication system also acts as a tight control system.

vi- Tolerance: excellent companies should have substantial tolerance towards failure as not all new ideas will find their way to success.

One of General Electric's biggest recent commercial successes, other than acquisition, for example, has been engineered plastics (from nothing in 1970 to \$1 billion in 1980). This innovative idea properly implemented, actually came from off-line activity.

In that same prospect, KLM Cargo has redesigned the shape of its organization, from a vertical, rigid hierarchical structure to a flat, horizontal organization that empowers front line people and allow plenty of room to creativity, added responsibilities, and decision making down the way. Above all, this paved the way for an easier flow of information and a free exchange of ideas and opinions throughout the organizational functions and layers. This newly structured organization is divided into specific disciplines and departments that would allow having more experienced, professional staff performing defined activities in an efficient way.

KLM Cargo has formally requested its people to be innovative, not just for few products, but by reinventing the ways it does its traditional business to add value.

4- Productivity through people.

Resources of any organization comprises of a combination of financial, physical, informational and human elements. The employees should be considered as the most important asset of the company. Treating employees with respect and dignity, as well as recognizing personal achievements are the key factors for higher productivity, and hence higher financial rewards.

More important is the companies' obligations to provide for proper training and opportunity for personal development. Different approaches have been used in the excellent companies to increase employee satisfaction and in return generate higher profits:

i- The language: the language in people oriented institutions has a common flavor. Phrases that upgrade the status of individual employees are crucial elements in true-people-oriented companies.

ii- The family feeling: the best companies view themselves as an extended family. The company is not looked at 'just a place to work', rather a community center for employees to include sports clubs, travel clubs, etc.

iii- The chain of command: absence of a rigidly followed chain of command. For the day-to-day business, information and informality is the norm.

iv- Training: intensity of training programs is common in the excellent companies' internal culture. Establishment of universities as well as on the job training are opportunities provided to almost all employees.

v- Socialization: intensity of socialization of the incoming managers. This process ranges from proper screening in the recruitment phase to learning through role models.

vi- Information: information availability and comparison. Important information is always shared widely in the excellent organizations.

vii- Layering: less obvious structuring and less layering will eventually fade away slow moving, rigid bureaucracy because these excellent companies have realized that very few layers are needed to make the job done efficiently.

viii- Smallness: small is productive. The point of small is that it induces manageability and commitment. Even if the companies are large enough to employ hundreds of thousands of employees, the divisions, units, groups, and teams should be small in nature.

ix- Philosophy: all excellent organizations have succeeded because they uphold a philosophy of full respect towards their employees, providing them with career scheme development.

McDonald's talks endlessly about the individual's contribution. It is today one of the most unstructured corporation that offers a happier and more secure environment to its hard working group of executives and overall staff members.

On the other hand, IBM is very serious when it comes to following an intense people orientation approach. For IBM, it is people that makes the difference. This is why the basic ingredients of its philosophy are 'respect for the individual, lifetime employment, insistence upon promotion from within, monthly opinion surveys by the personnel department, an intense training strategy, etc.

At KLM Cargo, most if not all of the above listed points are closely observed and applied. And it only takes those few words stated by executive vice president KLM Cargo Mr. Jacques Ancher to confirm the matter: " it's almost become a cliché to say that people are our highest asset, but it's so familiar because it's true. We've been running awareness courses, training seminars, interactive workshops and of course we've been using personal communication". **Refer to Appendix 9**

5- Hands on, value driven.

Aside from the financial quantifiable objectives, excellent companies should have a well defined set of guiding beliefs and distinctive identity. More important is the faithful adherence to those beliefs. Six important attributes of an effective values system are:

- i- Measure: companies values should be stated in qualitative, rather than quantitative terms along with the financial and strategic objectives.
- ii- Inspiration: inspiration should reach at the very bottom of the organization.
- iii- Identification of the dominant contradiction in the business objective is an essential part in maintaining effective values system.
- iv- Scope: beliefs/values of these excellent companies should be narrow in scope.
- v- Attitude: excellent companies treat everyone in the organization as potential innovators.
- vi- Informal communication: management by walking around as well as feeling of one family is promoted in these distinguished organizations. They believe that the formal chain of command should be avoided to keep communication flowing more effectively. The management of these excellent companies live the values. They become the role-models and heroes. More important is the principal that they have created a homogeneous staff entity.

If one has a general round up of the main principles and practices followed in KLM Cargo, we would certainly notice that most of these crucial attributes are strongly incorporated and closely followed by the Dutch carrier in its day to day business.

Therefore, if we take a look at the mission of KLM Cargo and its different values, we would find them stated in qualitative terms, concise and narrow in scope. As for attitude and inspiration, as previously mentioned, KLM Cargo take pride in its qualified staff and encourage initiatives undertaken from the bottom to the top of the ladder, and considers its front line employees as key elements in their innovation

process. On top of that the team spirit is highly remarkable at KLM Cargo which creates a healthy environment of cooperation and determination to deliver periodical reports and various publications, circulated to its internal staff. This confirms KLM Cargo's pride of the values it upholds.

6- Stick to the knitting.

Although some diversification would be a healthy step towards growth nevertheless, remaining very close to the core business and choosing the right way is very important. Staying in the related fields have proved to be more successful than branching into different industries. Internally generated diversification, with one small step at a time, is recommended to divest loss if there were to be failure. Excellent companies usually acquire small businesses that could be readily assimilated without changing the character of the acquiring organization.

KLM has actually seek growth by acquiring a percentage share of the equities of the American airline: North West, a strategy which would ensure broader transportation coverage and additional convenience to its customers.

In that same prospect, KLM needed to operate more professionally in a complex environment, and better focus on its ever demanding clients. This is why, in order to meet the demand of two mainly different groups of customers: Passengers and Traders, KLM had undergone a radical organizational split, followed by a major restructuring process. Therefore, in order to capitalize on its growing customer base, KLM chose to expand its organization, while still concentrating on doing business in the same general industry: the air freight transportation.

7- Simple form, lean staff.

As organizations grow in size and activity, they become more complex and unclear in nature. However, the excellent companies avoid this complexity by ensuring an important characteristic of *clarity on values*. This will empower organizations with maximum needed stability, simplicity and flexibility in responding to fast changing conditions in the environment. This is best demonstrated by having simple organizational structure, divisionalized and autonomous.

Parallel to simplicity is keeping lean staff, especially at the corporate level. These companies believe in maintaining minimal corporate level managers and few middle management layers. The bottom line is: fewer administrators and more operators.

Despite the company's size, Johnson & Johnson was able to establish an organization based on simplicity in form. This company maintained its structure remarkably simple, divisionalized and autonomous. J & J is a \$5 billion company, broken into 150 independent division aggregated into eight groups having either a different geographic or product scope.

This is indeed what actually KLM Cargo was looking after by undergoing its overall restructuring process. **Refer to the organizational chart Appendix 11.**

8- Simultaneous loose-tight properties.

This can be described as the synthesis of the 7 basic characteristics which preceded.

Loose-tight property means rigid controls but with autonomy, entrepreneurship innovation, and giving plenty of rope. Rigid controls mean establishing disciplinary measures and imply imposing tight but culturally driven set of priorities, but with flexible organizational structures, maximized autonomy for individuals, and maintenance of positive and strong social network. Excellent companies have known how to balance between having loose and tight properties.

"Lew Lehr, 3M's chairman, goes around telling tales of people who have failed monumentally-but gone on, after decades of trying, to become vice presidents of the company. He's describing the loose-tight, soft-hard properties of the 3M culture".

At KLM Cargo, serving the customer and maintaining a standard quality service are top priorities that could not be compromised. Further specific systems are established by KLM Cargo to assure a strong control over its staff and a close monitoring of their performance, but allowing at the same time much flexibility and initiative by empowering its front line employees.

As a consequence of what has been illustrated above, we can openly say that American Management principles are not only strictly observed by American companies alone, but are as well largely recognized and applied by different European organizations, among which KLM Cargo would be a good example.

5.4 Limitation of the study.

Because of the descriptive nature of this research paper, and of the narrow time period since the launching of the new KLM Cargo organization, this study could mainly be considered as a source of background information and a starting point for more in-depth researches. But it would be pretentious and unreasonably premature to be able to experiment, plainly analyze, judge, reach sound evaluations and supply solid recommendations on our topic at this point in time.

Adding to this, that most of the data on hand are limited and qualitative in nature, rather than being straight clear cut quantitative information. Therefore, the analysis and interpretations of many of the findings was mostly based on judgment and might consequently have been subject to interpreter bias.

5.5 Recommended future researches.

Although this research paper tried to tackle many critical points about the specific new KLM Cargo vision, and many issues about the general freight industry situation, a lot of studies remains to be performed in this still highly unexplored field.

A suggestion, would be to address the KLM Cargo case in two years time, and try to evaluate the performance of this young organization, and assess to what extent the company has succeeded in practically applying its set mission and strategies. Yet another interesting subject among others, would be to study more deeply the air freight industry sector, and shed further lights on the practices of various entities and airline companies, and eventually weight the pros and cons of different operating groups to ultimately screen and define the most successful policies and uncover the best yielding strategies in the field.

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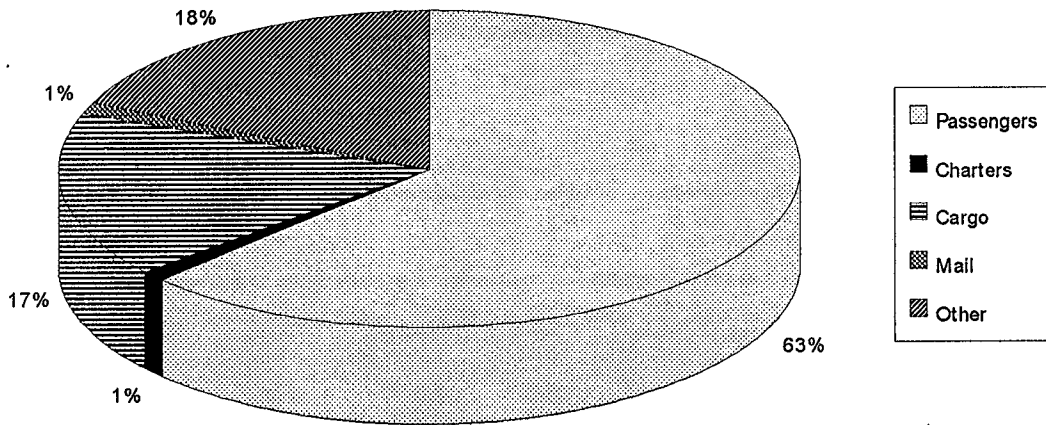
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


















Appendix 1



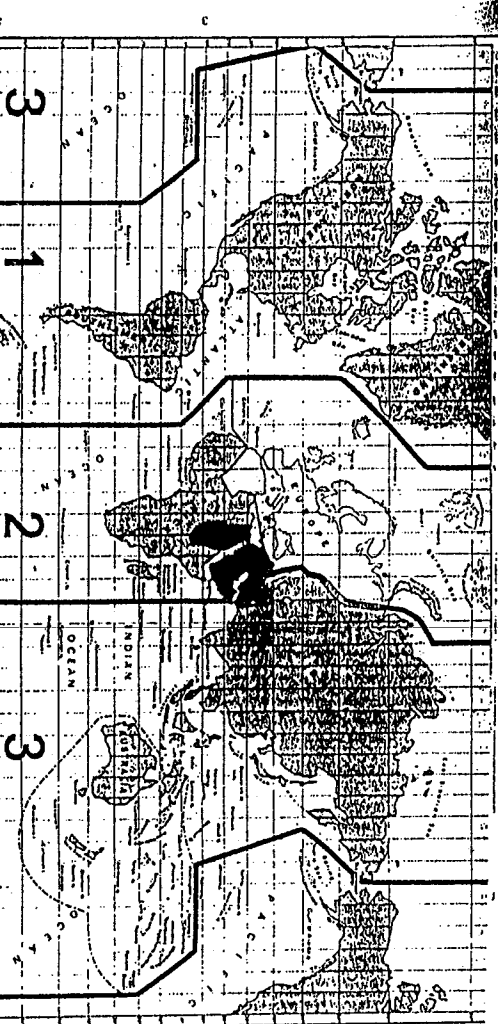
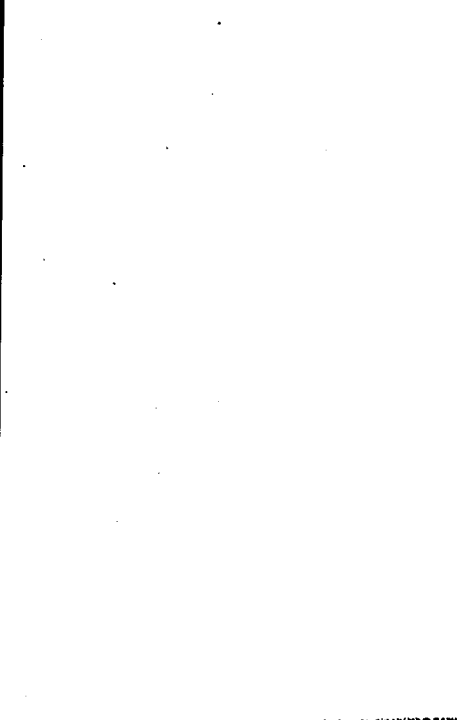
General Introduction Course Part 1. Passenger Sales and Services Division
Passage Training SPL/GP
May 1992.

APPENDIX 2a

Pallets and Containers

 <p>60.4 x 125 Pallet Max load 3,075 kg Loadable in B 737 F DC-10, B 747, A 340</p>	 <p>88 x 125 Pallet Max load 6,704 kg Loadable in B 737 F DC-10, B 747, A 340</p>	 <p>96 x 125 Pallet Max load 6,704 kg Loadable in B 737 F A 340</p>	 <p>96 x 238.5 Pallet Max load 10,840 kg Loadable in B 747 DM/F</p>	 <p>Pallets with Side Extension 60.4 x 125 88 x 125 96 x 125 Max load 3,075 kg Loadable in A 310, B 747, A 340</p>	 <p>Car Transport Pallet Set a 196" by 2 cars Max load 8,900 kg Loadable in B 747 DM/F</p>	 <p>LD 3 Refrigerated Container Max load 12,988 kg Loadable in B 737 F A 310, A 300, DC-10, B 747, A 340</p>	 <p>LD 3 Container for 3 Horses Max load 1,528 kg Loadable in B 737 F B 747, A 340</p>
 <p>10-foot Container Max load 5,819 kg Loadable in B 747 DM/F</p>	 <p>10-foot Container with front door Max load 5,819 kg Loadable in B 747 DM/F</p>	 <p>20-foot Container Max load 10,245 kg Loadable in B 747 DM/F</p>	 <p>20-foot Container with front door Max load 10,245 kg Loadable in B 747 DM/F</p>	 <p>20-foot Container Max load 10,245 kg Loadable in B 747 DM/F</p>	 <p>20-foot Container with front door Max load 10,245 kg Loadable in B 747 DM/F</p>	 <p>20-foot Container Max load 10,245 kg Loadable in B 747 DM/F</p>	 <p>20-foot Container with front door Max load 10,245 kg Loadable in B 747 DM/F</p>
 <p>20-foot Container Max load 10,245 kg Loadable in B 747 DM/F</p>	 <p>20-foot Container with front door Max load 10,245 kg Loadable in B 747 DM/F</p>	 <p>20-foot Container Max load 10,245 kg Loadable in B 747 DM/F</p>	<p>20-foot Container with front door Max load 10,245 kg Loadable in B 747 DM/F</p>				

LD 3 pallet and container variations are available.



5.1 Handling

5.1.1 DEFINITIONS

APPENDIX 2b

AIRCRAFT ULD

An ULD which interfaces directly with aircraft loading and restraint systems and meets all restraint requirements without the use of supplementary equipment. As such it is a component part of the aircraft. All KLM aircraft ULD's are registered with IATA

SURVEY OF ULD'S IN USE AND OWNED BY KLM

Type	ID Code till Oct. 1, 1983	ID Code from Oct. 1, 1993 till Oct. 1, 1994	ID Code from Oct 1, 1984	Average tare weight
Pallet 108x88"	P2P	PDP	PBJ	115 KG
Pallet 125x88"	PIP	PAP	PAG	120 KG
Pallet 125x96"	P6P	PQP	PMC	125 KG
Pallet 196x96"	P4M	PMM	PZA/PRA	365 KG
Pallet 238.5x96"	P7E	PSE	PGA	425 KG
Pallet 125x60.4"	P9A	PWA	PLB/PLA	100 KG
Pallet 61.5x96"	-	-	PNA	60 KG
Certified Lowerdeck Container 61.5x60.4x64"	AVE	AVE	AKE	85 KG
Certified Maindeck Container 125x96x96"	AQ6	AQA	AMA	350 KG
Certified Container 125x88x64"	AA2	AAP	AAP	230 KG
Contoured Security Container 125x88x61.5"	AAQ	AAQ	AAQ	365 KG
Pal Pak 125x88x48" + UP	-	-	AA	270 KG
Stabilizer 125x96x96"	-	-	XST	225 KG
Pallet Connector 251x96"	-	-	XPC	275 KG
Meat Bin 125x88x39" + UP				205 KG
Omnitainer 125x96x63" + UP	OMN	OMN	OMN	355 KG
Horse stall 125x96"x96"	PAB	PAB	HMA	850 KG
Double-deck pig stall 125x96"x61"	KQV	KQV	KQV	560 KG
Triple-deck pig stall 125x96"x92"	KQV	KQV	KQV	760 KG

Note : See AHM 1.8.3 for maximum grossweight per ULD and per aircraft type, and AHM 1.8.4 for illustrations.

Appendix 3

Interview with KLM Cargo's Regional Director Customer Services Middle East & South Asia, Mr. Jan Krems.
May 10, 1996.

1- What do you believe are the major reasons behind the step undertaken by KLM Cargo to distinguish itself as an independent entity, non subject anymore to the dictate of the passengers division

The major reason behind the step to distinguish ourselves as an independent company was because KLM saw the importance of cargo as a major source of income. The only way to grow towards future was to make it independent. Own accountability and own organization with own responsibilities. Markets were changing and we needed to go on hand in hand with these changes, otherwise we would loose out if we kept our division as is. Besides the cargo business has a totally different needs/demands which needed to be addressed in a different way. The airlines where cargo still is under the passenger division are lacking behind the ones who gave their cargo division a separate entity. Now we can make decisions much quicker to respond to changes in the market.

2- Was this venture worth it (weighting derived costs versus profits), and how better off is the present situation of KLM Cargo compared to the past.

The future will teach us if it will pay off. After one year in transition, the signs are positive. At the beginning we noticed some negative reactions from the freight forwarders side, but very positive signs from shippers. One negative aspect to highlight is the total market growth at the moment. We predicted around 10 percent worldwide growth, while at the moment growth is not exceeding 2 percent. Our capacity increase of 10-15 percent is giving us problems because you cannot react that quickly when there are contracts signed. Nevertheless, marketers are very positive concerning the future.

3- Do you think KLM was the pioneer in giving free hand to the cargo division to work and be managed on its own, or was this idea already in practice by some airlines in the industry. Do you anticipate other carriers to learn a lesson and follow suit.

If you talk about traditional airlines, KLM was the first with Lufthansa following very closely. Air France was also one of the first but because of lousy management and lack of vision, they decided to go back under the passage control. This is still under discussion, but it indicates if you don't have your act together it will go down the drain. You need of course total support from the rest of the organization, otherwise it will also fail.

4- What has really changed after the official launching of KLM Cargo's new organization and business philosophy in April 1995. Was there an intention to re-position KLM Cargo in the market place and reshape its image and perception in the customer's mind. How effective was it.

In our mind it was clear that we had to move towards other direction. As I explained to you before, we were too expensive to compete with the German Cargo, Cargolux, Martinair of this world and not good enough as for example UPS. To survive in the future we had to refocus, migrate as a company towards the upper end of the market without forgetting the lower part. That is why we introduced the Business Units and discipline structure.

5- How long do you think would it take KLM Cargo's plan and strategies to start showing concrete results, and before KLM Cargo actually begins harvesting the crops of its seeded field.

It already showed results. The negative aspect is the world cargo situation, but if growth will be back as predicted we will improve rapidly and leave many competitors far behind.

6- Cargo wise, the restructuring within the division took place by defining several different disciplines and assigning to them specific tasks and job descriptions. The main purpose behind this was to enable each discipline to better concentrate on its daily activities. But don't you agree that this might as well create a feeling of routine to KLM Cargo's staff members, and ending up with over specialized employees lacking diversified freight knowledge and mainly able to perform limited automate job functions.

I totally agree with you, people will be more specialized and maybe the staff would get de motivated or even bored. I think it's up to the management to make sure that there is some kind of personnel/management development plan so that people can make a move to other disciplines/business units. But this of course is when you decide to work in a system like this, training is essential. To motivate staff it is vital to have extensive, structured and frequent training schemes.

7- The split within KLM, between cargo and passage, created some confusion to the external publics (customers, agents, handling agents, general sales agents, etc.) in terms of how to relate to these new independent entities, what is the new rapport to be established with each one of these divisions, what is the new hierarchy system, what are the drawn lines of command and authorities, whom to report to, etc. This puzzling situation specially arised due to the fact that cargo departments of most airlines are generally subordinated to the traffic division, and the practice has always been and is usually still to refer back to the management of the passage organization when cargo matters are involved. What is your comment on this established fact.

Within KLM the structure is clear. The passage and cargo divisions are totally independent, and per division one boss reports to the board. I think that what we externally have to do is make it more clear and obvious to the market, specially in countries where for 75 years cargo has always been under the direct control of the passage management. Constant information to the market is vital.

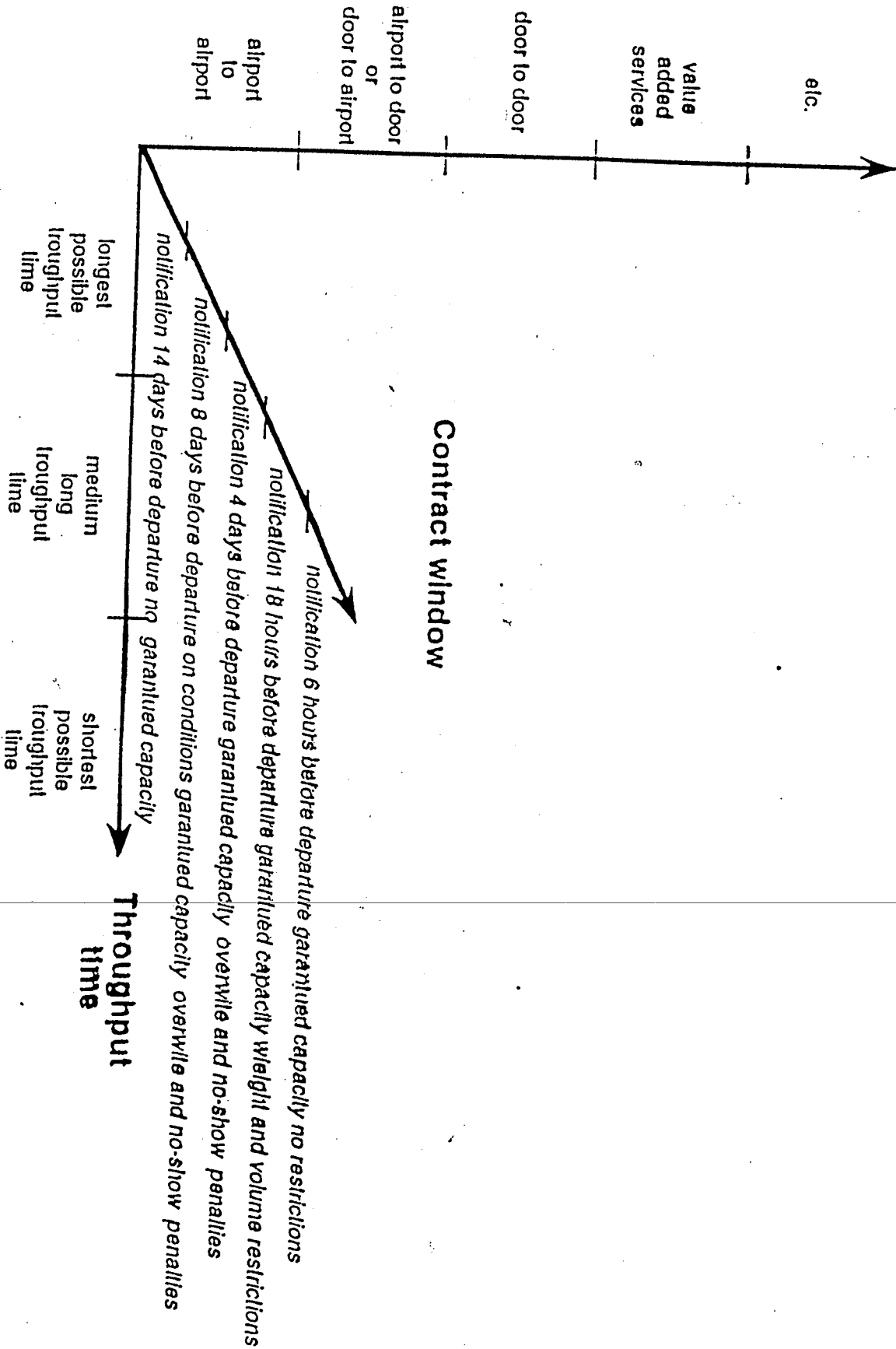
8- How do you see the future of KLM Cargo and what is the future trend the freight industry as a whole is taking.

I am very positive concerning the future of KLM Cargo, and the way we are organized and growing into our new role. This is the future. That is why I think in three years time, companies like KLM and Lufthansa will be far ahead of competition. But this is the way the industry is going.

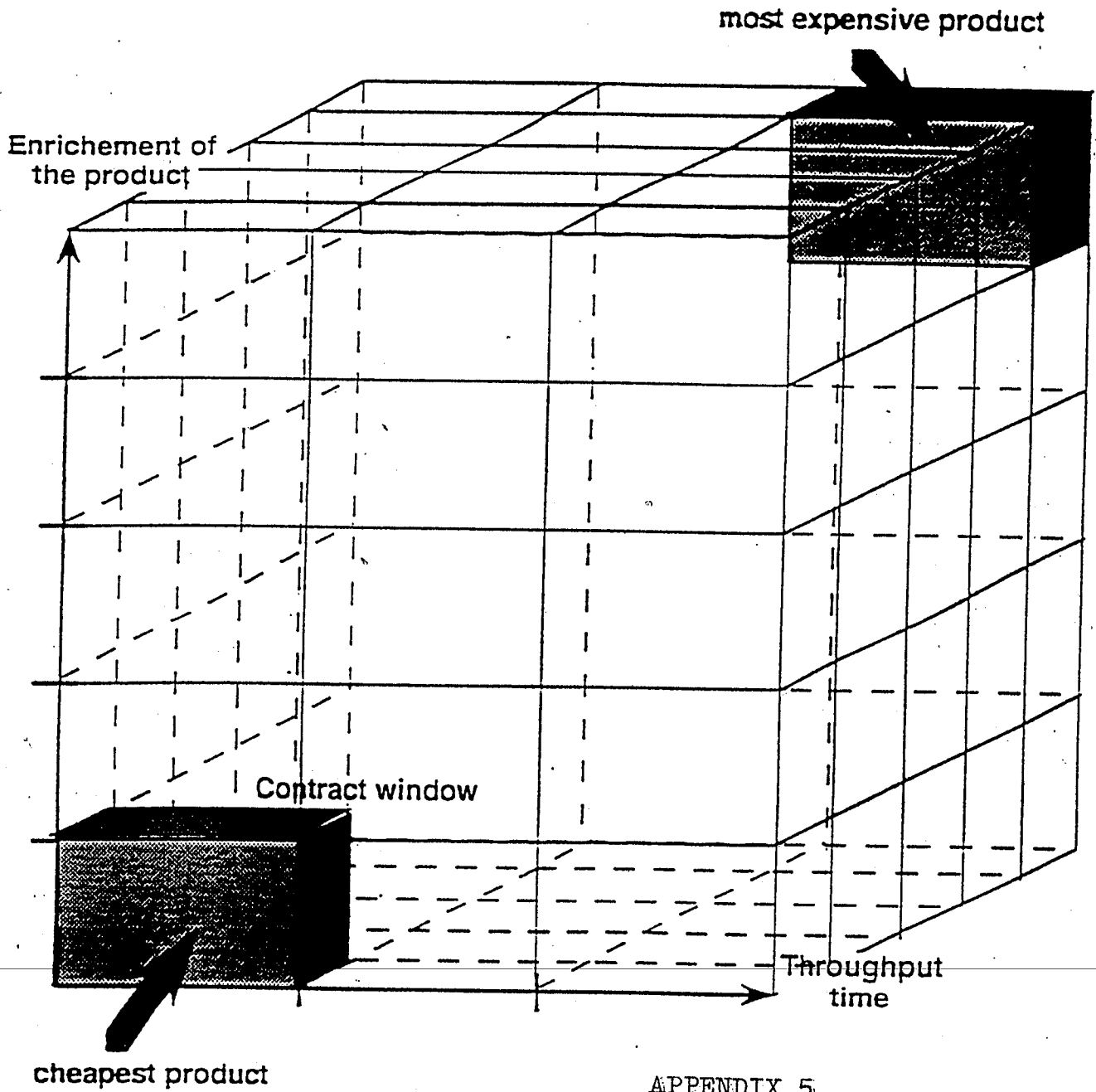
PRODUCT DIFFERENTIATION AXIS

Enrichment of the product

APPENDIX 4



PRODUCT DIFFERENTIATION BOX



APPENDIX 5

Founded..... October 7, 1919

Headquarters..... Amstelveen, The Netherlands

President..... Pieter Bouw

1993/94 Revenue..... NLG 1375 million

1993/94 Cargo Volume..... 3000 million ton-kilometres

Employees..... 25000 employees worldwide

KLM Jet Aircraft Fleet.....

B747-400	15
B747-300	13
MD11	6
A310	8
B737-400	10
B737-300	15
Fokker F28	4
Fokker 50	10
Saab 340B	12
<u>Total</u>	<u>93</u>

Chartered Aircraft.....

B747F	2
MD11	2
B737-300	4
<u>Total</u>	<u>8</u>

Number of Flights per Week

Domestic EC.....

Flights	1293 per week
Trucks	538 per week
<u>Total</u>	<u>1831 per week</u>

International.....

Americas	145 per week
Mid/Far East	107 per week
Africa	41 per week
<u>Total</u>	<u>293 per week</u>

Air Hubs

Europe

Regional Air Hubs..... Linz (Austria), Manchester (UK), Malmo (Sweden)
Muttentz (Switzerland)

Asia Pacific

South Asia..... Singapore
Kuala Lumpur

International Freight

Scheduled Freight Tonnes Carried

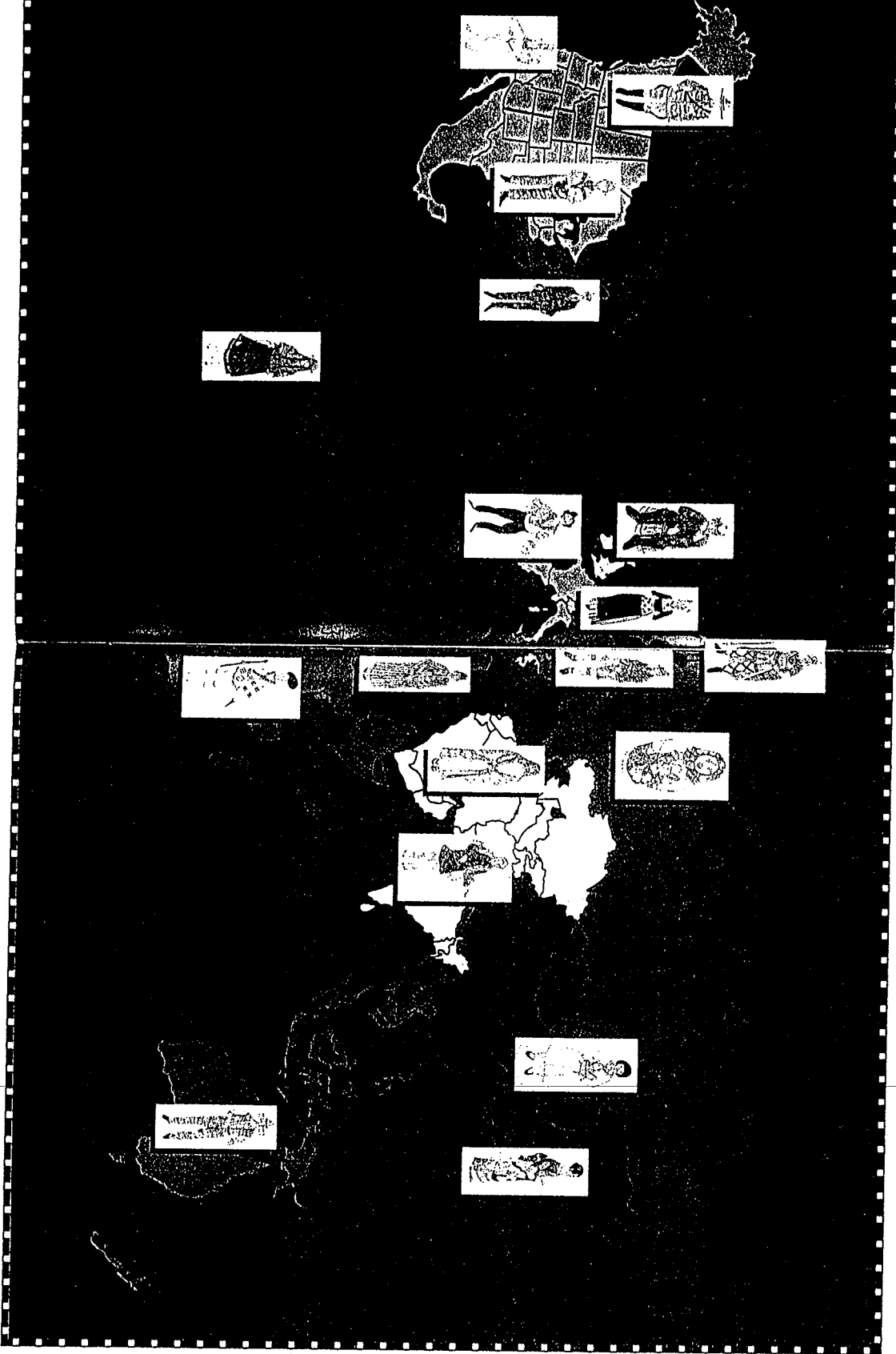
Rank	Airlines	Thousand
1	Lufthansa (1)	857
2	Federal Express (2)	639
3	Air France (3)	624
4	Korean Air Lines (4)	566
5	KLM (5)	564
6	Singapore Airlines (6)	534
7	British Airways (8)	492
8	Japan Airlines (7)	473
9	Cathay Pacific (9)	463
10	Northwest Airlines (10)	394
11	American Airlines (11)	314
12	Thai Airways (12)	296
13	Swissair (13)	266
14	United Airlines (14)	237
15	Alitalia (15)	215
16	Qantas (17)	202
17	EI Al (18)	197
18	Malaysian Airlines System (19)	196
19	Air Canada (16)	194
20	UPS (22)	182
21	Nippon Cargo Airlines (20)	178
22	Delta Air Lines (23)	164
23	Saudi Arabian Airlines (21)	154
24	Gulf Air (-)	126
25	Varig (24)	124
26	Garuda Indonesia (26)	118
27	SAS (29)	108
28	Iberia (27)	98
29	Sabena (31)	90
30	Emirates (36)	89
31	Kuwait Airways (34)	83
32	Air India (39)	77
33	China Eastern (32)	77
34	Air China (32)	75
35	Continental Airlines (30)	71
36	All Nippon Airways (37)	70
37	Virgin Atlantic Airways (43)	62
38	Aeroflot Russian Intl (38)	61
39	Canadian Airlines Int'l (41)	61
40	Philippines Airlines (42)	60
41	Air Pacific (48)	56
42	Royal Jordanian (40)	55
43	Lan-Chile (44)	53
44	Turkish Airlines (49)	53
45	Air Afrique (-)	46
46	TWA-Trans World Airlines (47)	45
47	TAP-Air Portugal (46)	43
48	Egyptair (45)	43
49	Finnair (-)	42
50	Olympic Airways (-)	37

Scheduled Freight Ton Kilometre Performed

Rank	Airlines	Thousand
1	Lufthansa (1)	5355
2	Air France (2)	4140
3	Korean Airlines (3)	3795
4	KLM (5)	3636
5	Japan Airlines (4)	3342
6	Singapore Airlines (6)	3291
7	British Airways (7)	3047
8	Federal Express (8)	2379
9	Cathay Pacific (9)	2376
10	Northwest Airlines (11)	1917
11	United Airlines (11)	1594
12	American Airlines (12)	1521
13	Qantas (14)	1447
14	Swissair (16)	1400
15	Nippon Cargo Airlines (15)	1395
16	Alitalia (13)	1343
17	Thai Airways (17)	1210
18	Delta Air Lines (20)	1012
19	EI Al (18)	955
20	Varig (19)	849
21	UPS (23)	828
22	Malaysian Airlines System (21)	766
23	Saudi Arabian Airlines (22)	742
24	Air Canada (24)	669
25	Garuda Indonesian (25)	625
26	Iberia (28)	520
27	Canadian Airlines Int'l (27)	511
28	Air China (26)	487
29	Gulf Air (-)	483
30	Air India (40)	449
31	Virgin Atlantic Airways (36)	447
32	All Nippon Airways (32)	446
33	Aeroflot Russian Int'l (33)	441
34	SAS (30)	431
35	Sabena (31)	422
36	Emirates (41)	342
37	Philippines Airlines (36)	330
38	Lan-Chile (39)	309
39	Continental Airlines (35)	305
40	China Eastern (43)	304
41	TWA-Trans World Airlines (44)	288
42	Kuwait Airways (42)	285
43	SAA-South African Airways (3)	223
44	Royal Jordanian (45)	220
45	Turkish Airlines (49)	197
46	Finnair (47)	189
47	Aerolineas Argentina (46)	187
48	TAP-Air Portugal (48)	163
49	Air Afrique (-)	159
50	Tower Air (-)	136

() Last year's ranking

the World According to KLM Cargo



- Region 1
- Region 2
- Region 3
- Region 4
- Region 5
- Region 6
- Region 7
- Region 8
- Region 9
- Region 10
- Region 11
- Region 12

Appendix 9

Interview with executive vice president KLM Cargo Mr. Jacques Ancher.
Cargovision Spring 1995 Special Issue, pp. 6-13.

How long has KLM Cargo been moving towards introducing change management?

It's been an evolutionary process. We had a vision which many of us subscribed to and we started to reorganize; in fact, we've had many of the building blocks of our new organization in place for some years. For example, we reorganized our factory (handling, warehouse management and flight network control) workforce into teams three years ago, which wrought significant change on that component of our business. We also introduced our quality programme which forced consideration of the way we conducted our business internally and provided tangible targets and measures.

So you could say that we certainly realized as far back as 1985 that some aspects of our business were unsatisfactory and needed to be changed. At first it was a matter of discussion between a few individuals and then the debate widened as we dealt with specific questions and priorities.

A very positive step in the direction of change came in 1989 with the development and introduction of the KLM corporate programme Vision'93 which led to the reconfirmation of the airline's core activities of passenger and cargo carriage and the subsequent splitting of the organization into a Passenger and a Cargo division.

Last year, after considered analysis and deliberation, we reached the stage where we launched our 'Division in Transition' programme which incorporates not only issues of strategy and structure but the determination to effect behavioral change throughout our organization.

Was there an overwhelming reason to change, and how did you set the ball rolling?

It's rather complex because it involves a variety of reasons that became internally compelling rather than it being the case that the organization was put under pressure by overwhelming external developments. Ultimately I suppose you could say that it had its roots in a kind of intuition, a feeling that all was not quite right internally and when we looked outside we saw that the picture there was much the same. Not only was the aviation business in general being buffeted by volatile economic forces which needed to be countered, but also our ultimate cargo customers - those companies that you would find in the Fortune 500, for example - were introducing their own repositioning policies, and if they were changing, we certainly needed to be changing right alongside them.

It was this perception that we simply had to change that forced us to define our vision. Once that vision was defined we set out to measure and analyze, to be rather more scientific. Then we had to figure out how we were going to become the company we wanted to be.

We kept consultation tight to start out with but widened the circle as we progressed, recognizing that each time we did this we involved different people who had their own strengths, perspectives and experiences to contribute. We then developed the business case, which was followed by more investigative meetings and testing, all the time with ever widening circles. This may seem quite an elongated process but we decided that we would have the discussions before and not after a decision had been reached.

We have flattened our organization and arranged it into three disciplines, five business units, and seven staff departments for the obvious reasons of getting closer to our customers, cutting on bureaucracy and empowering our colleagues to act innovatively and swiftly. Our guidelines allow us to organize our business fluidly so that we can respond to local environments but still share in processes, technology and so on. It also gives us greater transparency: a clear line of sight between decisions. It all comes down to a good dose of common sense.

How was the picture outside not quite right?

The aviation business as a whole had been under pressure for several years. Whilst it is undoubtedly still a growth business it is sharply subject to fluctuations of the world's political and economic fortunes and their subsequent effect on supply and demand. The industry was and is subject to increasing liberalization, globalisation and fierce competition. As a whole it was losing significant amounts of money and the margins were and are getting ever thinner. The bottom line was that for far too long we had been living in our own little world, protected by regulations that were fast becoming anachronistic.

Fortunately we were one of the airlines that suffered less than others but there was a general realization that the world around us was and is changing and we recognized that to survive we would need to change along with it.

Did the bureaucratic structure of the air cargo industry cause your business undue burden?

You only have to take a cursory glance at this industry to realize that we have to be one of the few remaining business sectors that needs radical restructuring. We have long felt that the entire traditional industry should take stock before it's too late; indeed, one of my personal 'war cries' of recent times has been the need to create greater transparency in all of our dealings. This company will bend over backwards to make sure that we make the proper contribution towards making this business more transparent.

However, we will no longer uphold practices or support organizations that are inherently detrimental to the way we want to run our business. We are burning those bridges as of now. At KLM Cargo, sticking by the conventions of this industry meant that we were unfocused and our traditional method of distributing our product was forcing us into directions we didn't want to take. We didn't know who our clients were, and our customers - the freight forwarding agents - frequently turned out to be our competitors but we called ourselves partners.

The whole industry was and is in the same boat and it's a nonsense. Fortunately KLM Cargo is in a relatively good position but internally we realized that this is by chance rather than by design. We no longer intend to follow the herd; we intend to follow the demands of our business.

So the situation was that, in comparison to your competitors, you were performing well. There doesn't seem to have been any one compelling external imperative forcing you to change tack.

The fact that there is no huge imperative is probably our greater disadvantage. As I've said, there is a lot of tradition in this industry and, to be frank, many of our customers would prefer to see us uphold the conventions involved. On the other hand, another type of client would prefer us to deal with them directly rather than through a third party. So there is no one customer that we can change for.

Neither are we driven by our competitors because they come in all shapes and varieties, and while some of them are equally serious players in this industry, there are others who fly cargo capacity under the seats of their passengers and they might as well sell it. Cargo is simply incidental to their main business.

I should also add that in many customer survey, internal and external, and looking at all aspects of our business, we are consistently rated either the top performer or the second best performer in every category. When 80 per cent of your customers tell you that they are highly satisfied with your service, you know you are doing something right. But we needed to change so that we can make that figure 100 per cent and we needed to position ourselves for the future. We have had to summon up this driving conviction from our own resources.

Have you used the services of outside consultancies to help guide your transition process?

We have sought external assistance in a number of areas, largely to guide us on best practice elsewhere. Ultimately, of course, we have to be the ones who make the decisions and put our plans into action but it certainly help to see how other companies have already tackled some of the questions this process inevitably throws up. We also owe a debt of gratitude to professor Henk Van Dongen of Erasmus University, Rotterdam, who has given us and continues to give us the benefit of his incisive insight and experience.

What are you hoping to achieve with the Change process?

Our mission is to rank among the Top Three customer-driven suppliers of high-quality transport, distribution and information services. To deliver this goal, we needed an organization that is flexible and customer oriented; that has a cost level which is at least comparable with the global competition; that has good market position and presence; and that focuses on quality, professionalism and agreed corporate values.

To achieve these objectives we obviously required a workforce that is empowered, for which we needed a much flatter organization that moved away from being organized around hierarchical functions towards horizontal processes. The idea is that this drives the decision-making process down the way, encouraging our employees to think creatively and assume a lot more responsibility for their daily input. It

Most businesses undertaking corporate transformation believe that behavioral change amongst their employees will eventually bring them the biggest benefits. Do you agree and how are you facilitating the necessary change of mindset in KLM Cargo?

It's almost become a cliché to say that people are our biggest asset but it's so familiar because it's true. It stands to reason that the attitude of your entire workforce is crucial if you are to bring about fundamental changes in the way you conduct your business.

I think the most important thing that we can do to facilitate this change is to communicate and then communicate some more in as many different ways as we can think of. We've been running awareness courses, training seminars, interactive workshops, yet more training seminars and of course we've been using personal communication. We've also instituted a regular Transition Journal so that people know where we are up to in the process and what challenges we are encountering. We are really trying to share and we are really trying to show. We realize that we have to walk the talk - in fact this is probably the most important means we have of helping to change the mindset of our colleagues.

Don't you think that perhaps they get immured to different ways of being managed? Don't they simply switch off, assuming that it will all change again shortly?

Just the opposite: they learn to live with change and find it a challenge. They realize we are now an organization that will constantly change and they are part of that process.

Talking with our Workers' Council I think it is fair to say that they value the communication and cooperation that we are creating together.

In encouraging innovation and creativity throughout your organization you run the risk of certain initiatives running counter to the way the rest of the business is managed. How do you control these differences?

We take the risks. We have to accept that if we are asking people to be innovative, not just for new products but by reinventing the ways we do our traditional business to add value, we cannot restrict freedom. We have to let them live the vision. Of course, we have a code of conduct, which we anticipate will take care of any ethical issues involved and will uphold our corporate values.

I believe that we are all aware that we are accountable for our actions; I hope that most of my colleagues view this responsibility as an opportunity as well as a challenge.

In devising your strategy, have you looked at best practices either within the air cargo industry or in other industries?

We have studied very many companies outwit our own industry. In particular we have learned some valuable lessons from those companies in the service sector. No matter what you are doing, someone is doing it better somewhere - and why should you make the same mistakes as they made in getting there if you can learn from their experience?

We take inspiration as well as learn lessons from many other companies. We also recognize that we need to benchmark ourselves against the best.

Do you anticipate that your customers will understand the way that you are changing your business?

Given that our intention is to focus very firmly on our customers' preferences I hope that they will come to appreciate the enhanced services that we will be providing. But in general I would say that our customers aren't really interested in how we manage our business as long as we deliver the quality services they specify.

Have you put a stake in the ground? How do you measure your success?

Externally we use the obvious numerical measures of every other organization, and we have been gratified to see that we have enjoyed considerable growth in recent months. We also have a number of methods of surveying customer satisfaction which gives body to the anecdotal feedback that we are getting.

Of course we must also fulfill our own ISO - awarded quality standards and, in addition, we have our own internal measurements which analyze how well our 'internal client market' is performing. We have agreed standards that all of our disciplines and business units must meet in order to fulfill their obligations towards their fellow disciplines and business units.

Another measure of our success is that we believe that we can grow our business, indeed we believe we can double our business, though full co-operation with our alliance partners - such as Northwest Airlines, Atlas Air, Emirates and Frans Maas, the continental trucking line - deliver a better service to our customers and still keep our fixed costs the same which means that we'll be competitively priced.

Appendix 10

Interview with KLM Cargo's Regional Director Sales Middle East & South Asia Mr. Robert Van De Weg.

April 2, 1996.

1- What do you believe are the reasons behind the step undertaken by KLM Cargo to distinguish itself as an independent entity, non subject anymore to the dictate of the passage division.

The main reason is that Cargo is a real different business compared to passage. Although in the end a kilogram of cargo may end up in the same aircraft as a passenger, it requires a different approach. In cargo we talk to industrial professional buyers that need an efficient/effective solution to their transportation needs. There are many angles to a logistical problem.

The customers are often very different. In Passage you mostly talk to individuals, in Cargo to professional shipping/traffic managers and/or their agents.

2- Do you think KLM was the pioneer in giving free hand to the cargo division to work and be managed on its own, or was this idea already in practice by some airlines in the industry; and do you anticipate other carriers to follow suit.

No, KLM was the first, although Lufthansa swiftly followed. Now Lufthansa is the furthest, they are about to have a completely separate Cargo company, with own shareholders. Most airlines have limited freedom for cargo with only a separate Marketing and/or Revenue Optimization department.

3- Taking into consideration KLM's general mission and strategical interests, was there really a sound need for this split between Cargo and Passengers department. Couldn't things had been kept managed the way they were.

In view of my answer to your first question, I would say no. Results would definitely not have been what they are under the old set-up. We would not have been able to react swiftly to (changing) demand of our customers if management is not dedicated to the (different) cargo business.

4- To what extent up till now, have the established theories and drawn plans matched the reality and actual daily practices

Hard to say, depends on the specific station. In general, I think our customer focus has improved a lot although we are still facing many internal 'interface' problems between Passage and Cargo, and within Cargo itself (between Sales, Customer Services and Operations). This increased customer focus must have paid off.

5- Looking objectively at available facts and figures and financial data on hand, what is the current KLM Cargo situation as compared to that of the pre-restructuring period.

Cannot compare due to ever-changing market circumstances which obviously have a huge influence on results.

6- KLM Cargo's main mission is to rank among the top 3 customer driven suppliers of high quality transport, distribution and information services. What does this mean in practical terms. Couldn't this objective have equally been attainable with the previous Passenger/Cargo Organization structure.

No, as previously mentioned (in question 3).

7- Where does KLM Cargo consider its current position/rank to be situated on a worldwide scale level.

Hard to measure. Think between 3-5. Definitely ahead of us are Lufthansa and Federal Express. Lufthansa mainly because of their much bigger network, Federal Express due to their excellent marketing.

8- How do you see the future of KLM Cargo and what is the future trend the Air freight industry as a whole is taking.

The whole Air freight industry should be doing well. World is getting smaller and faster. Cycle times of products are getting shorter. This means, goods will have to be brought to market faster and faster. Air freight logistics will become more and more a basic requirement. Doing this part well will become a competitive edge for shippers/consignees. KLM Cargo as a trend-setter in this business must obviously do well, if we manage to solve our internal differences.

General Affairs
Walter Meyer
SPL/FA

Executive Vice President
Jacques Ancher
SPL/FA

Engineering
SPL/FA

Marketing & Communications
Bram Oudekerk
SPL/FA

Supervisory
SPL/FA

Personnel
SPL/FA

Quality Control
SPL/FA

Quality Control
SPL/FA

Operations
Jan Meurer
SPL/FA

Sales
Siem Wright
SPL/FA

Customer Service
Emo Ozinga
SPL/FA

BU Special Cargo
Lutz Oudekerk
SPL/FA

BU Cargo
SPL/FA

BU Manual Services
SPL/FA

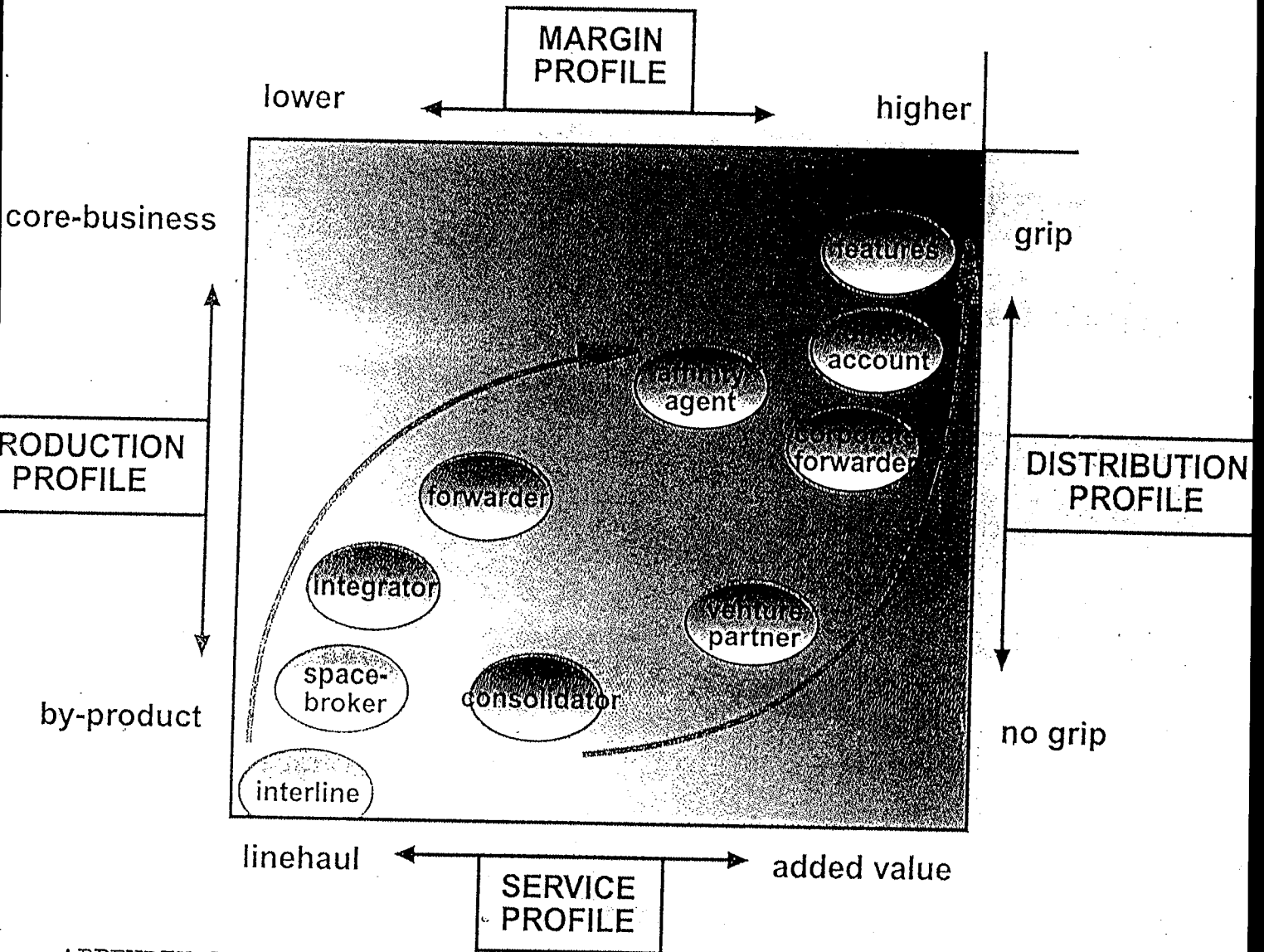
BU Maintenance
SPL/FA

BU Logistics
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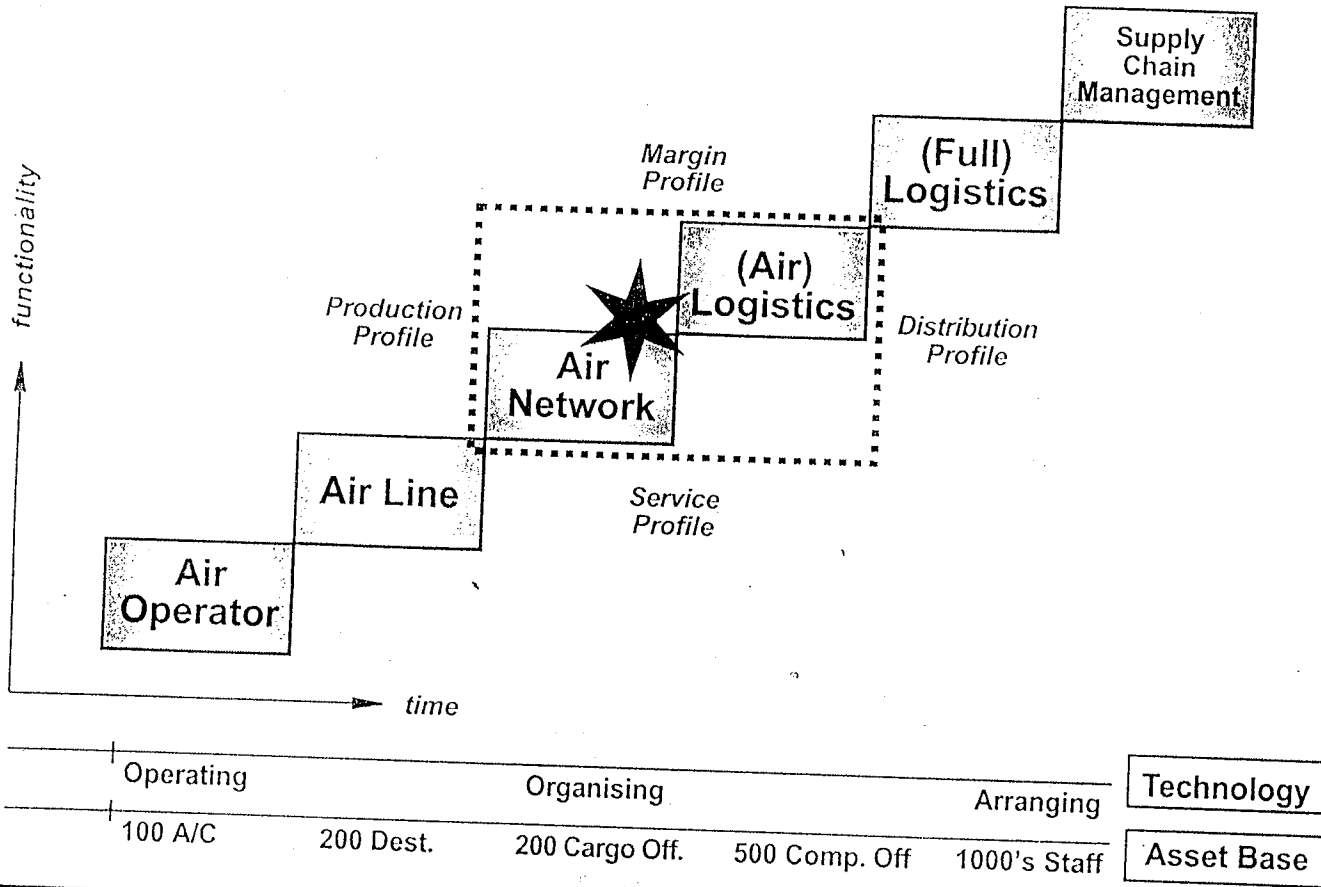
APPENDIX 11



AIR CARGO FOCUS QUALITY CARRIER



BUSINESS POSITIONING



APPENDIX 13



Appendix 14

Interview with executive vice president KLM Cargo Mr. Jacques Ancher, Cargovision October 1995, pp. 8-10.

Its now roughly six months since the public launch of the new KLM Cargo. Have matters progressed the way you expected?

Much, much better than we anticipated. We are really very positive about our progress. All the indications are that our business is benefiting from our new approach to the market and, although the industry in general is also faring very well at present, we are doing really rather better than the market average.

Did your customers react to your restructuring in the way you thought they would?

Yes and no. Some have surprised us and we have been thrilled by the great many shippers and intermediaries who have come forward seeking more information from us and sharing their vision of the future of this industry.

But we've also had the expected criticism from some forwarders who believe that we are trying to squeeze them out of the distribution equation. To be fair, some of them have read reports that simply misunderstood our position and they've let themselves be carried away by sensationalism. Well, I've said it before and I'll say it again, we are an organization that prizes honesty and integrity and we will always respect the position of the forwarding industry.

So, are you saying that you will continue to work through the traditional distribution channels?

Working together with the forwarding industry will absolutely remain the norm for KLM Cargo. However, we will also have to allow for the fact that, where it is required of us, we will need to deal with shippers directly

Do you find that the adverse reaction runs throughout the forwarding community or is it restricted to forwarders of a certain size or in a certain area?

No, sometimes it comes down to just a few individuals. It's not something we dwell on because, by and large, most forwarders, certainly at a senior level, respect our position just as we respect theirs.

It is simply understood that we must all work together towards providing customers with responsive, professional and innovative service. They, too, realize that this industry must develop a strategic understanding of the customer and position itself to anticipate emerging customer needs.

But others simply refuse to recognize that it's a different world out there and that many shippers want to have a transparent relationship with this industry.

Does the thought of retaliation from the forwarders concern you?

I don't think that it's an attitude that will survive for long, not in the face of customers' increasing demands for a more open, transparent and sophisticated response to their needs from this industry. Indeed, I believe that we as an industry do not have the luxury even to consider waging retaliation upon each other, not while this business is changing so fast.

In this sense we are obviously becoming a more mature industry and we're facing the same considerations that other industries have had to cope with. Take banking for instance: Chase Manhattan and Chemical Bank will constitute a colossal force in global banking services. They need to get together in order to safeguard their efficiency and their effectiveness. Their combined size, their market performance, their power of distribution - all of this could be, and most likely will be, threatening in somebody's eyes. But is that a valid reason to consider retaliation? I very much doubt it. It may be a reason for scrutiny, for reviewing your own business, but not for retaliation.

You've spoken before about how businesses undertaking corporate transformation must change the behavior and mindset of all employees. Internally, have your colleagues embraced this new approach towards their work?

At the risk of sounding too satisfied, I think more than anything else this is what gives me pleasure. I really feel that we have helped create an atmosphere where our people feel an emotional commitment to their work that is almost edible.

We've had scores of training programmes, seminars, courses and meetings, and the enthusiasm is infectious. We've empowered people and we've managed to unleash a lot of creativity that was obviously there before but which we simply didn't capture.

How are you going to sustain that momentum?

We're going to continue the training, continue encouraging open communication, continue to support our people. Of course, we're on a learning curve and it would be untrue to say that everyone is finding our new behavioral norms easy to adopt. When you empower each individual in the way we have, it can seem almost anarchic at times, which can be unsettling, depending on your attitude. There's a lot of opportunity for misunderstanding if people don't trust their colleagues and communicate openly because, by nature, some people are more protective of what they see as their territory than others.

So, some people are finding it harder than others to let go, to get used to the idea that we don't have the same functional boundaries that we used to uphold. But we are all working towards the same goals and, at the end of the day, everyone realizes that that is what counts.

You mentioned earlier that shippers and intermediaries have contacted you in order to discuss their vision of the future of this industry.

Indeed, many contacted us as a result of having read the special 'Metamorphosis' issue of *Cargovision* that we produced earlier this year. We circulated it to a much wider audience than would regularly receive the magazine: our instinct was that, because what we are doing is leading edge in the industry, we would have to explain our strategy as fully and clearly as we could. We didn't really know exactly what to expect but simply targeted as many businesses as we could.

The result has been very rewarding and we've found that people have been grateful that we have taken the trouble to try to explain our position to them, to proffer our vision of the future, against the context of what is happening in other industries. That's one of the reasons that we've decided to publish another special issue of the magazine next spring. This time we will explore the future of this industry from many different perspectives, giving all sectors of the industry - forwarders, integrators, shippers, handlers and so on - the opportunity to forward their vision of the future. We don't mind if a contribution is controversial or if it is opposed to our own position. We feel that such a discussion is well overdue and we intend to provide a neutral platform to accommodate such a debate.

Appendix 15

Interview with executive vice president KLM Cargo Mr. Jacques Ancher. Cargovision April 1996, pp.6-9.

It's now a year since KLM Cargo officially launched its change programme. At the time you stated that your aim was to create a learning organization that was focused on the demands of the customers. One year on, where are you in this process?

A good way along the road I believe, but there's still much further to travel. Within the company we tend to talk about matters as being inside-out or outside-in, so that we distinguish our own internal busywork from those developments that actually make a material difference for the customer. It's important that we maintain this distinction so that we keep our focus but, having said that, let me deal with some internal issues.

We've always recognized that to deliver our objectives we require an organization that is flexible and customer-oriented, and that is focused on quality, professionalism and agreed corporate values. During the last year we've put enormous effort into training and equipping our people, but this is not something that you can do once and then turn around and say, there, that's done. It's a constant process, an on-going activity. It also takes people time to get used to being empowered when they've always been managed along traditional command and control lines.

Our personnel have been very supportive, which is half the battle because accepting constant change is no small matter to take on board. Perhaps the fact that we have had a significant fall in absenteeism is as good an indicator of how we are faring as any. I think the key to this transition has been that we gave our people the opportunity to have their say up-front, asking them how they saw their role in the new organization. While the strategy was defined, the implementation was open to change because we left room for our employees to fill out the details. Of course, this decision resulted in anticipated disputes about demarcations and a variety of power games being played out, but it also yielded a lot of positive and creative solutions and alternatives. I think it's made implementing subsequent changes much easier.

While I'd like to think that we've carried the hearts and heads of every single person in the organization with us on every issue, I'd be fooling myself if I believed it. In any re-engineering process of this magnitude there is a lot of scope for doubt and insecurity, and what we've had to do is create an environment where people can talk honestly about any uncertainties they have. We call this functional honesty, and we are committed to ensuring that there is transparency of information throughout the organization.

However, I will say that at this stage in our development any remaining question marks are confined to the internal dimension of our business: they concern the way we are doing things as individuals on a day-to-day basis rather than what the company is doing as a matter of broad strategy within the industry. Here we demand total support and could not tolerate anything less.

And externally? Has the new strategy yielded any concrete results as yet?

We have solid evidence that we have improved our results in respect of all three cornerstones of KLM Cargo strategy: market presence, competitive cost and customer preference. For some time now we have been achieving double-digit growth year in, year out which we believe makes us the fastest growing freight carrier in Europe. In this last year, our market share has expanded around 10 per cent, which is healthy and manageable. And, from a corporate standpoint, KLM Cargo is contributing significant amounts to the overall profitability of KLM and yields have withstood downward pressure extremely well. However we have suffered a fall in load factor over the last few months, largely because our capacity has grown by 19 per cent and this has coincided with a sudden dip in demand on some routes.

Can you say why this has happened?

I'm satisfied that it is a reflection of the market rather than of our performance. We have to remember that air cargo is one of the most sensitive indicators of change within the global economy that there is. The sudden fall could indicate that recession, short or long, is approaching. We can't say yet whether this scenario is true but certainly the experts don't believe that it'll come to such a pass, and their opinion is confirmed by the signals that we are getting from customers that they expect a recovery in the second half of the year.

How do you intend to manage this situation?

We are still growing at faster than average rates and I don't see any reason to adjust our capacity growth much until we have a better idea of what is happening in the overall and individual markets. It's also not a uniform situation worldwide: there are many routes which are performing very well indeed, so there is plenty of scope for strengthening our business in those areas to redress the balance. We also can't ignore the fact that during the last year we have spent a huge amounts of effort in getting our own house in order. We don't think we've taken our eye off the ball but it's now time to focus our attention one hundred per cent on getting down and doing real business.

What mistakes have you made?

It has taken much longer than we anticipated to achieve a uniformity in the pace of change apparent throughout all the disciplines, business units and support departments of the company. That was disappointing, but I suppose predictable and this issue of alignment is now being tackled. However I pleased to say that we have made surprisingly few bad calls, and few that have had any impact on our customers. Perhaps the biggest mistake has been that we've not communicated enough and in sufficiently different ways with our customers and with the press. Again, this is a situation which is currently being addressed.

In general though, it's probably the case that we will always be able to improve our communication with our clients. I've spoken to, and read of, many other companies in diverse industries which are also undergoing restructuring, repositioning and process redesign, and they all allude to the fact that they can never communicate enough - with their staff, with their suppliers, with their customers, with their publics. I'll add that we're planning to put together a special issue of *Cargovision* which will look specifically at the ways that companies in air cargo and other industries organize their businesses to utilize different commercial distribution channels. We'd welcome hearing from companies interested in contributing to the edition.

Are you saying that there has been some misinterpretation of KLM Cargo's policies?

Yes, in some quarters. Whether willfully or not, I can only speculate. Certainly we had always anticipated some disquiet from forwarders who perceived our strategy as threatening their business. In the event most recognize that the industry has evolved to the stage where change is inevitable. They realize the rationale behind our insistence that where a forwarding company is acting as our partner we will treat it as a partner; where that same forwarder is acting as our competitor, we will treat it accordingly. They also recognize that it's the shipper that pays the bill at the end of the day and if that shipper wants a direct relationship or a close liaison with the carrier, that's what will happen.

So, you've no reservations at all about the general strategy of KLM Cargo?

None whatsoever. Life can be uncomfortable at times because KLM Cargo is openly breaking with the conventions of the air freight industry in order to survive as a profitable, healthy business with a bright future. We're not alone in approaching our business in this way, but we are one of the few carriers that is insisting on being transparent and honest in our dealings and that's always going to excite some attention. We live in a rapidly changing world. For example, I think we're only just beginning to understand how fundamentally technology is going to fuel change throughout this business and all businesses.

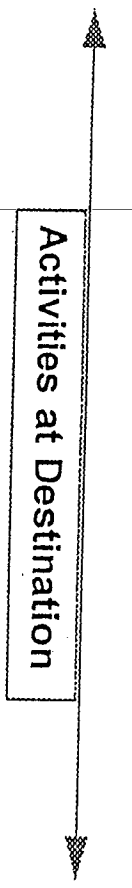
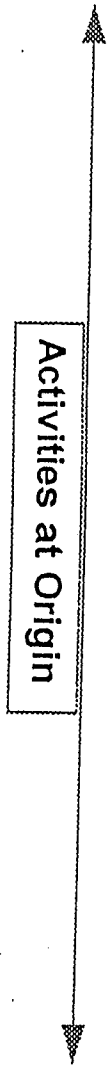
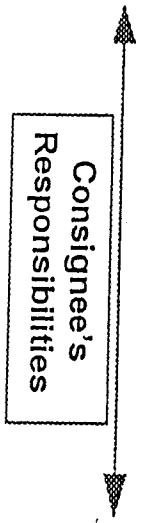
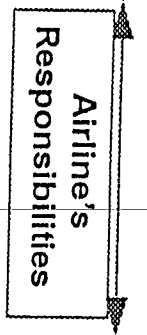
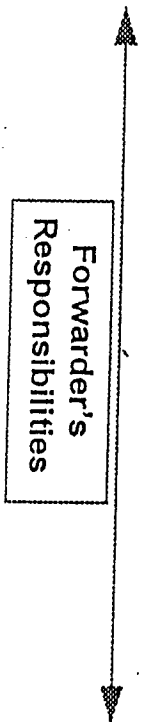
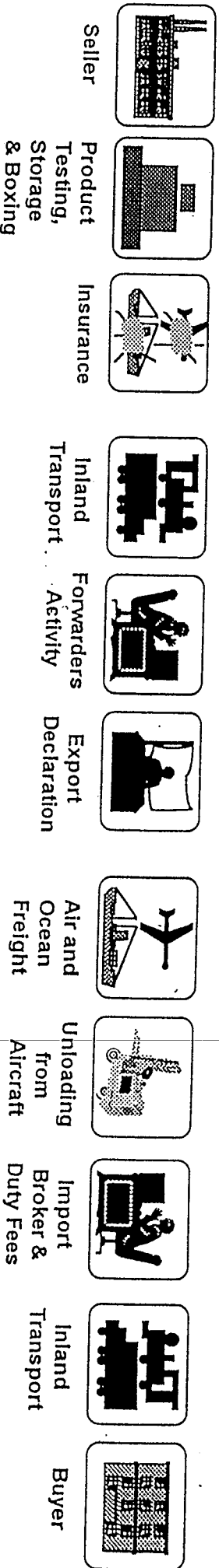
And just look at the stories making the newspapers in the last ten days alone: Sandoz is merging with Ciba; ICL is demerging its personal computer business and spinning off its contract electronics operations in order to concentrate on marketing systems and software services; Mobil and BP are joining forces in the marketing of their downstream activities in Europe; Alcatel and Sharp have announced a partnership for the development of the next generation of portable telephones. How can anyone doubt that this industry must also change in line with these trends? These companies are

this industry's clients - we can hardly sit still. As an industry we simply need to stop seeing the world from the standpoint of our own traditions and deal with the inevitable tensions that are the results of unpredictable and unstoppable change.

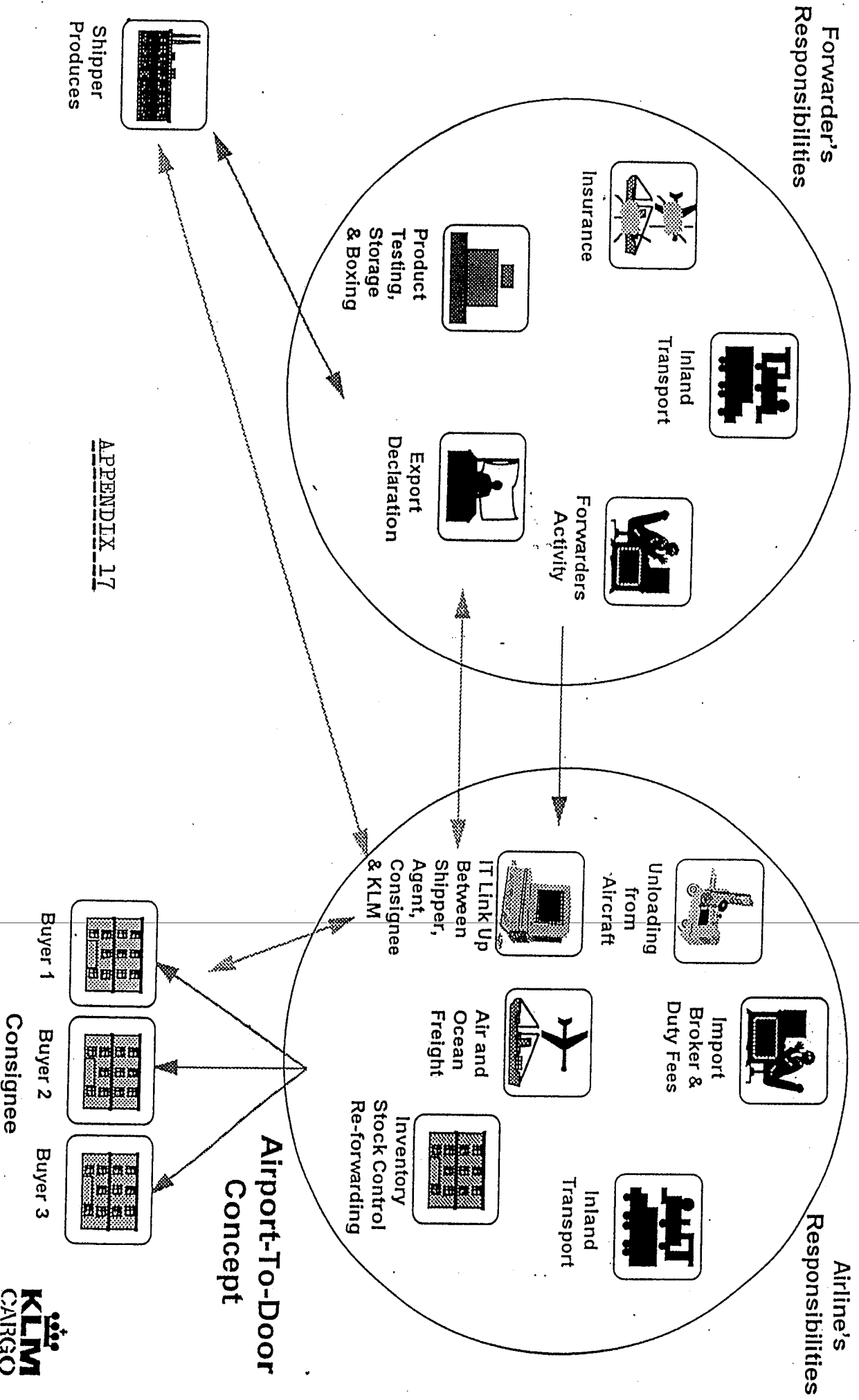
LOGISTICS PROCESS

The logistics process looks at all activities in movement and storage of goods from source to final consumer, the information flows supporting these operations and the management process involved in achieving the required levels of customer service.

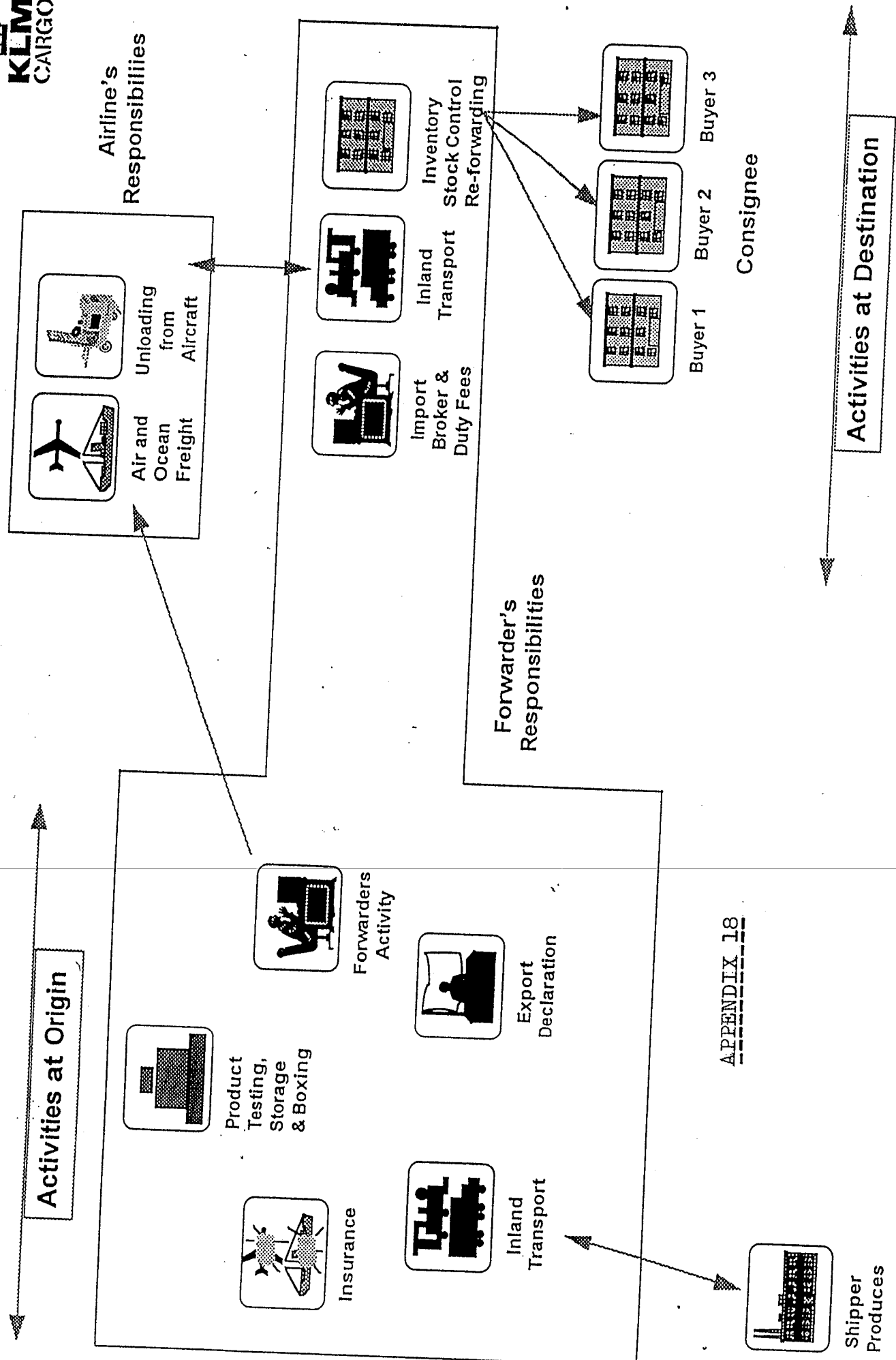
Traditional Logistics Process



Airline's View of Value Added Logistics Process



APPENDIX 17



Appendix 19

Interview with vice president of sales KLM Cargo Mr. Stan Wraight. Cargovision April 1996, pp.10-13.

You've recently stated that KLM Cargo intends to develop a code of conduct that will seal the relationship agreed between the airline and an individual forwarder. How has this come about?

In a nutshell because our strategy and policies are still subject to interpretation within the forwarding community. We feel that a document that specifies the nature of the relationship between ourselves and a given forwarder is the next logical move: its aim is to clarify and cement an understanding that may have been agreed at one level within each company but misinterpreted at another. In fact, it is at the suggestion of a couple of the global network forwarders that we are taking this step because it became obvious during meetings that the perception of KLM Cargo's strategy was misunderstood, largely as a result of misinterpretations in the press and conclusions drawn without having the chance to meet us face to face.

It therefore became apparent that our best chance of achieving the kind of working partnerships that we all speak of so freely is to introduce a clear and mutually binding code of conduct - and I'm pleased to say that some of the forwarders are helping us to develop the basis for this agreement.

That such a development is thought necessary implies that there has been a significant breakdown of trust within the industry.

I wouldn't say that it's a breakdown of trust as such: it's got more to do with the fact that traditional relationships are being re negotiated. This is fast turning into a cliché, but there is no denying that these are turbulent times and that this industry is undergoing fundamental changes. For example, we're no longer surprised when we read that carriers are joining forces with integrators or with forwarders, or that integrators are wooing the business of forwarders, or that carriers are entering joint ventures with other carriers. Equally the way that parties within the industry are reorganizing the way they do business is rarely remarked upon. For instance, some network forwarders are operating gateway concepts in close co-operation with preferred carriers. It's a trend that is to the definite detriment of smaller forwarders and non-preferred carriers. Others are regularly chartering entire B747s to provide uplift. To all intents and purposes they are now supplying their own capacity.

Let me make it clear, we have no problem with this kind of competition so long as the playing field is level. However, by no stretch of the imagination could a forwarder providing lift in competition to ourselves be called our partner. And yet that same forwarder may very well be our customer in another part of the world. How should we now treat that forwarder?

What KLM Cargo is saying is, let's recognize these complexities and work out a way of dealing with them, establish the rules of the game. We are not talking black and white issues here: there are a hundred shades of grey in between and, within the industry, we have to figure out a way of being sophisticated enough to live with these complexities.

That seems perfectly straightforward, if difficult to achieve. So why do you think that KLM Cargo's strategy has been open to doubt?

We've obviously underestimated the need for clear, repeated communication. We've certainly publicized our views and policies very widely and we've also been in on-going negotiations with customers directly and at different levels. However, communication is a two-way process: information needs to be understood, not simply sent. During the last year we've invested heavily on internal matters, having been very busy getting our people trained, facilities set up, IT systems into place, keeping the ship running and so on. Now we need to put even more time and further resources into meeting clients face-to-face, building those bridges and re negotiating our relationships in an atmosphere of honesty and openness so that we can help create a win-win situation for all parties.

And that include the shipper who is, lest we forget it, our ultimate driver and the one who foots the bill.

Which some parties could interpret as implying the need to return to the former demarcation lines.

Except that the world has rotated several times since the days when airlines were carriers and only forwarders spoke to shippers. Let's get real: that scenario went out of date when the first integrators started to offer apparently seamless services directly to shippers, compounded by the fact that evolving technologies have completely altered the way we now access and use information. Within this industry we've long had a tendency to examine our own entrails at the expense of the reputation of the business as a whole. Yet ultimately we are a service industry and, if we want to thrive, we must respond to the evolving requirements of manufacturing and trading companies worldwide. Let's remember who the customer is and keep our focus on providing the best professional service we can. If the shipper wants some kind of direct relationship with an airline because it will enable him to operate his business more efficiently and effectively, we should be responding to those demands.

However there's no sense in denying that it's a situation that leaves the traditional air carrier caught between a rock and a hard place. On the one hand you have traditional forwarders demanding that you have no relationship with the shipper, and on the other you have direct approaches from shippers. In addition, reports such as the recent White Paper from the European Air Shippers' Council have been published, which recommend that a dialogue with shippers should indeed be sought.

So how does a carrier sort out its own path?

What KLM Cargo has said is that we will seek a relationship with the customer, whether that decision-maker is an intermediary or a shipper. Other carriers must do as they see fit for their own types of businesses, but we are in this industry by choice rather than by accident: it is our profession. It has to be recognized that if we are to maintain healthy and invest in our future, we simply must synchronize our services with the demands of our customers.

Its easy enough to envisage a future where individual airlines will work most closely with just a few of the very large network forwarders. But what do you propose will be KLM Cargo's relationship with the smaller and medium-sized forwarders?

We offer and are further developing a basket of services that will allow those agents who enter into a quality alliance with us the possibility of customizing their relationship with us. We might be talking about two shipments a week or a whole programme that we'll help put together with a network forwarder. So we are not concerned whether a forwarder is small, medium or large; local, regional or global - our relationship will be different with each one but only in the relative wishes and requirements that each customer brings to the table of the discussion.

So how do you define the different degrees of relationship with forwarders that you've already defined?

In our eyes there are three basic roles a forwarder can play in its relationship to KLM Cargo.

As our agent, a forwarder gives KLM Cargo brand identity, market presence and access to a client base for our products. In return, within a quality alliance we can promise our agents an open and transparent 'partner' relationship that is driven by mutual trust and enhanced by, for example, IT support. In effect this will bring preferential status. As our customer outside of our quality alliance, a forwarder gives us no brand identity but we will continue to offer competitive products and pricing, and guaranteed performance levels. However, as our competitor, where a forwarder excludes KLM Cargo from its product offerings or operates its own aircraft, all I can say is business is business.

As I say, the difficulty arises when a forwarder wants to play all three roles at the same time - this is the complexity that has to be dealt with and this is where we hope a mutually agreed code of conduct will help establish a way forward for both parties involved. What I can promise unequivocally is that those forwarders who work with us as partners in the future will find no better carrier than KLM Cargo.

Appendix 20.

HOW AGILE IS YOUR COMPANY ?

In studying hundreds of products and services, the authors of **Agile competitors and Virtual Organizations: Strategies for Enriching the Customer** have unearthed the virtues of agility:

AGILE/NICHE MARKET	NON-AGILE/MASS MARKET
open/reponsive systems	closed/rigid systems
control is distributed	control is hierarchical
individualised	uniform/standardised
short market life	long-lived
customised/built to order	built to forecast
high on information content	low on information content
characterised by continuing relationship sales	characterised by single instance sales
pricing driven by customer's perceived value	priced by manufacturing unit cost plus margin.

1. Enriching the customer - solving a problem, adding value along the way.
2. Co-operating to enhance competitiveness - across work teams and across companies to create a virtual organisation.
3. Mastering change and uncertainty - innovation and flexibility are key in an entrepreneurial organisation.
4. Leveraging both people and information - making investments in order to increase the strategic impact of human resources and information, selling skills and knowledge, not time.