1973

The Future of the U.S. Domestic Air Freight Industry

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Recommended Citation

Lewis M. Schneider, *The Future of the U.S. Domestic Air Freight Industry*, 39 J. AIR L. & COM. 473 (1973)
<https://scholar.smu.edu/jalc/vol39/iss3/11>

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Book Review

THE FUTURE OF THE U.S. DOMESTIC AIR FREIGHT INDUSTRY. By Lewis M. Schneider. Cambridge: Division of Research, Graduate School of Business Administration, Harvard University. 1973. Pp. 217. \$9.00.

This is perhaps the first major study of the U.S. domestic air freight industry. It is particularly needed because, as the author so concisely states, "the time for resolution of the problems of the air freight industry is running short."

A principal value of this study is its delineation of the areas that require more study. The author recognizes that the air freight industry consists of more than the airline, but is a composite of many functions he terms "the air freight system." He correctly points out that one of the industry's major problems is to coordinate policies within the various segments of that "system." Among the segments of the system are: pick up and delivery, containerization and packaging, billing and collection, airline haul, equipment design, marketing and promotion, and regulations.

A simple catalogue of only a few of the items that the author lists as indicating a need for further research will reflect how relatively little is known about the "air freight system" and how cognizant he is of the overriding importance of those elements of the "system" that are unexplored: (i) the criteria for diverting to air large blocks of surface freight; (ii) the nature and level of indirect air freight costs, particularly those incurred in terminals; (iii) the effect of containerization on the total cost system; (iv) the effect of concentration by the airlines on the line haul freight service alone and the substitution of a relatively few number of strong forwarders to free the airlines from the responsibility of providing expensive terminal services.

Unfortunately, the author can only touch lightly on the various components of this system other than the airline haul. The limitations of his study are recognized in his reference to what he regards as an issue of major significance: shall there be increasing reliance on the role of the air freight forwarders in the system

or shall the airlines continue to perform or accelerate their performances of major functions beyond the line haul through their own operations or through integrating vertically? As a result of the inherent strictures of his study, however, this "strategic question" confronting the airlines and the regulatory agencies remains unprobed in depth although the ultimate choice may well be determinative, by itself, of whether there eventually will be a profitable air freight system at reasonable rates. The book *does* rhetorically inquire, however, that if "shifting the power" from the airlines to the forwarder specialist will mean that each airline will have to maintain excellent service and reasonable rates in order to obtain the traffic from the forwarders, what is wrong with that? Minimum rate regulation, the author notes, would protect the airlines from "exploitation" by the forwarders if the sales, terminal and other ground functions were to be delegated to the forwarders.

The author strongly implies that until studies of the other components such as those referred to above are completed or facts adduced from sources other than new studies, resolving the profit problems of air freight by reflecting only on the airlines and not on the "air freight system" as a whole would be essentially unproductive. There can be agreement with this as a general observation, but there are matters on which the industry has adequate knowledge to do something *now*. Thus, the author's pessimistic assumption that nothing can be done about low load factors due to "seasonality of traffic, imbalanced flows and peaking by day of week" is not consistent with facts available now and currently being developed in the *Domestic Air Freight Rate Investigation* and other CAB proceedings to which he alludes. The fact that there is now no excuse for lower eastbound rates (there is presently an excess of eastbound traffic over westbound) and that there is no significant seasonality of traffic removes *that* justification for low load factors almost entirely. Finally, while available information does show some peaking by the day of the week, this suggests a need for more imaginative scheduling on the part of the airlines to tailor schedules to demand, rather than, as at present, flying a straight five-day week pattern of service no matter what the daily demands are. Certainly, none of these factors have been shown to be any greater a problem for cargo than for passenger services where

load factor standards have only recently been strongly reaffirmed by the CAB.

While recognizing the undisputed fact that pre-containerization can reduce indirect airline expenses such as traffic servicing expenses by as much as seventy-five to eighty per cent and that "terminal operations should be spun off to the forwarders," the author does not appear to fully come to grips with why this is desirable. While he admits that this would result in great savings to the airlines in substantial indirect operating costs and traffic servicing expenses, he elsewhere concludes that container stuffing must take place *somewhere*, thus implying that the public would have to pay the *same* expenses in the system elsewhere. Overlooked, however, is the view, held by many, that *total* system costs *are* reduced for the public where pre-containerization and consolidation takes place earlier in the pipeline by the forwarder, or the shipper with sufficient freight, before the traffic is tendered to the airlines, as opposed to downstream containerization by the airline in its terminal. These "early pipeline" savings are not merely a function of the fact that airport costs are greater than off-airport costs, although that is a significant factor. It is also reflective of the fact, recognized by the airlines in moments of quiet contemplation, that there is a real need to avoid the present costly and inefficient "bucket brigade" method of handling freight within the system. Containerization effected early in the pipeline by forwarders or shippers would directly accomplish this objective.

The author criticizes the relatively narrow scope of the current CAB study of the domestic air freight industry. He argues that it should be broadened to include not only pricing questions but issues such as industry structure, competition, and economies. These are issues governing the entire spectrum of the domestic air freight industry. There is great merit in this critique; what the author advocates is a total freight industry investigation and not "merely" a rate inquiry. Otherwise, as is pointed out, the CAB will be scrutinizing only the short-term decisions while the long term issues remain unresolved.

I do not wish to appear to be hypercritical about the missing links in this study. Schneider has dug his plow into essentially virgin ground and it would be excessively captious to complain that further passes of the plow are necessary. This is a pioneer

exploration into the "modern" air freight era. He should not stop here. I would like to see him commit his substantial talents to a selective study of some of the other components of the air freight system. A similar probe into the other elements of the system, using the searching analysis he has exhibited in the present study, could make a major contribution to modernizing the thinking of the elements within the system, including the airlines and the CAB itself.

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