

McKinsey
& Company

E-commerce and air cargo: a match made in heaven?

eComm – MENA, 2nd edition

Rachid Maalouli, Partner

Dubai | April 2019



E-commerce continues to grow

**Cross-border e-commerce is
even more successful**

**De-mystifying the potential of
cross-border e-commerce**

**Cross-border e-commerce
needs air cargo**

**Cross-border e-commerce needs
fast, affordable delivery services**



**The story of
e-commerce growth
continues...
and not just for
Amazon and Alibaba**

> 20%

e-commerce growth rate per year over the last 15 years

In the next 5-10 years:

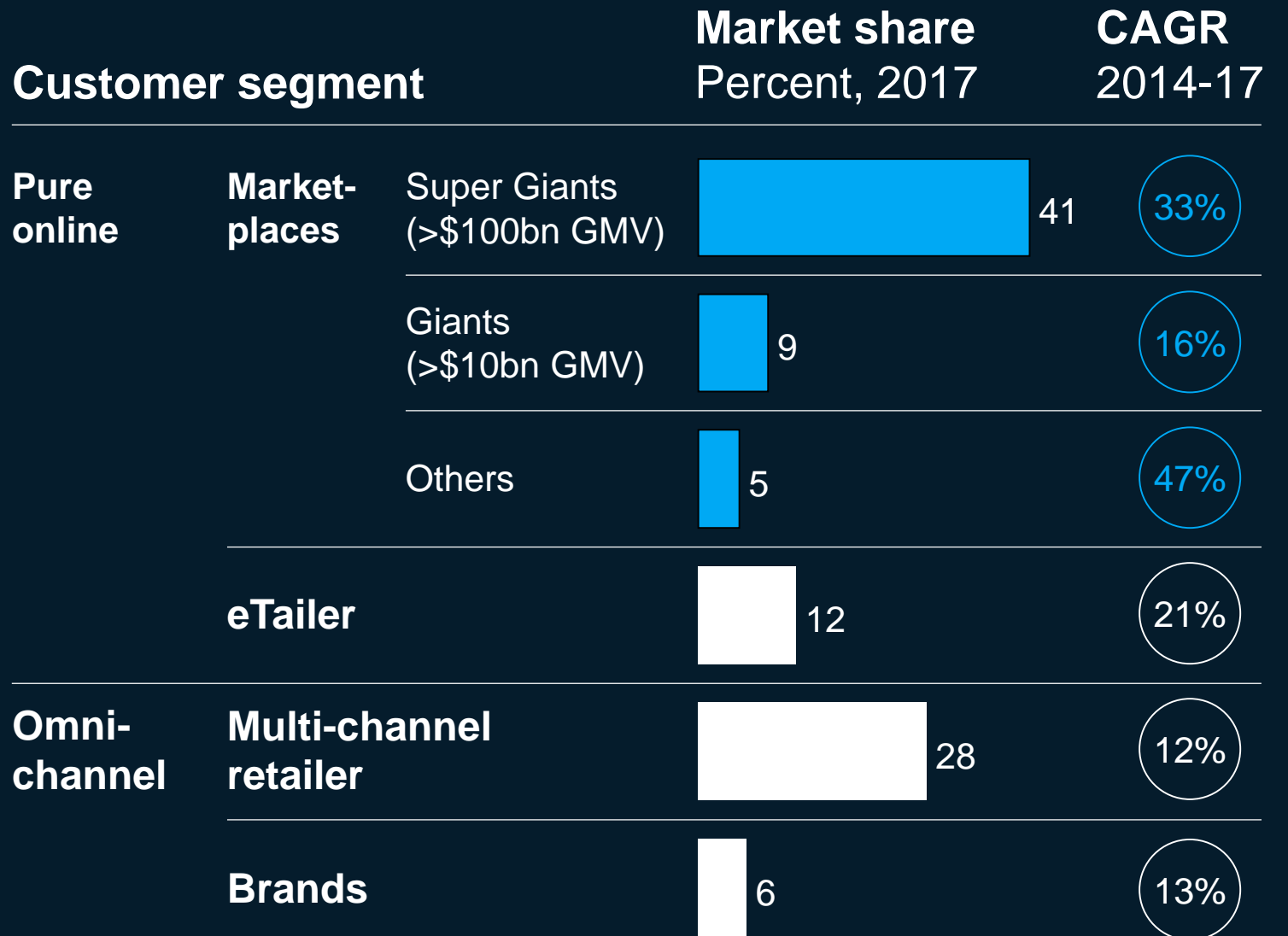
10-15%

expected e-commerce growth rates

15-20%

potential share of e-commerce in total retail sales

While marketplaces are the biggest segment, growth is strong (and partly stronger) for other players, too

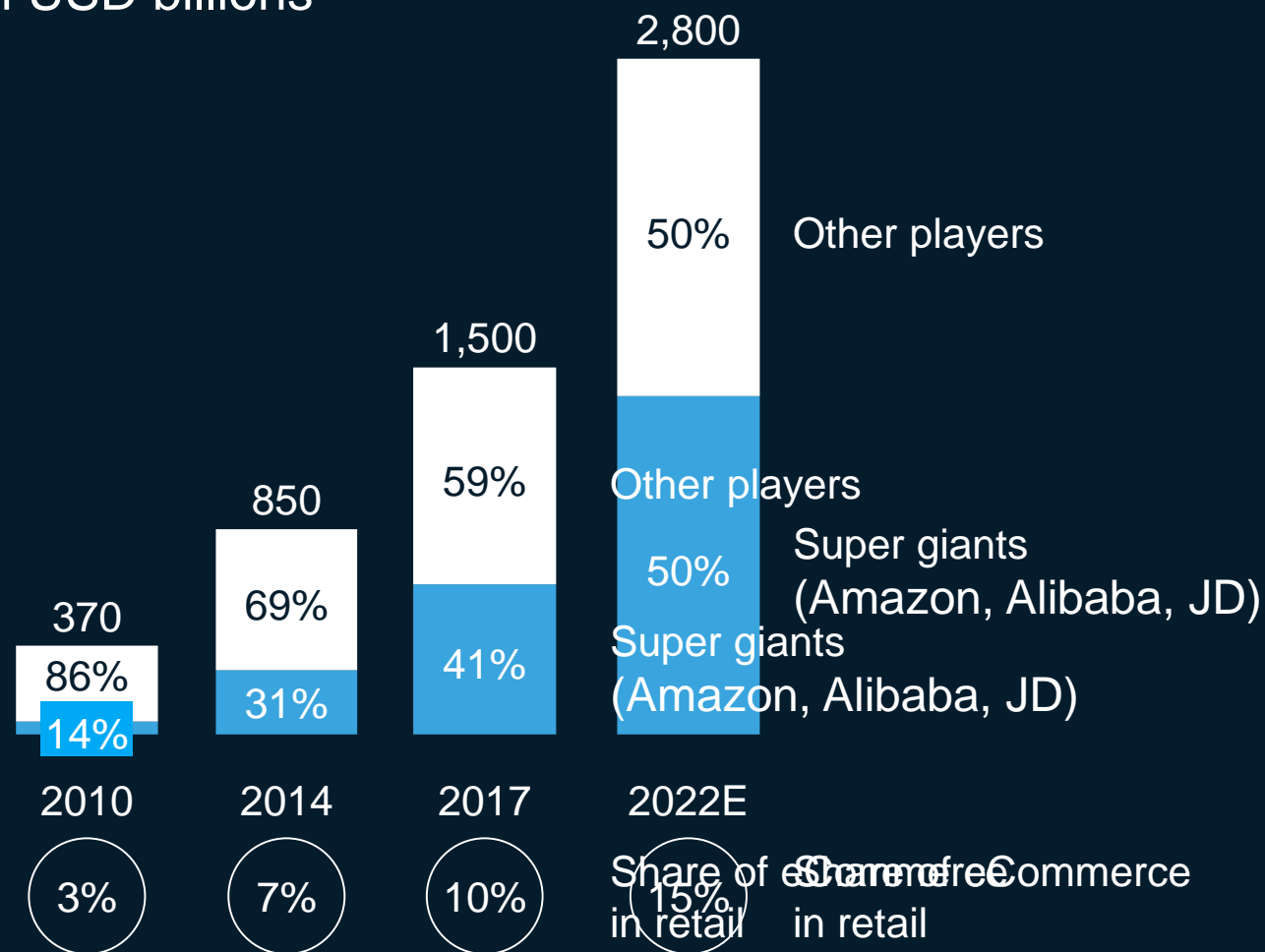


**Marketplace
giants have been
outgrowing
the market...**

**...but will
unlikely reach
more than half
of the global
market share**

eCommerce market development

GMV in USD billions

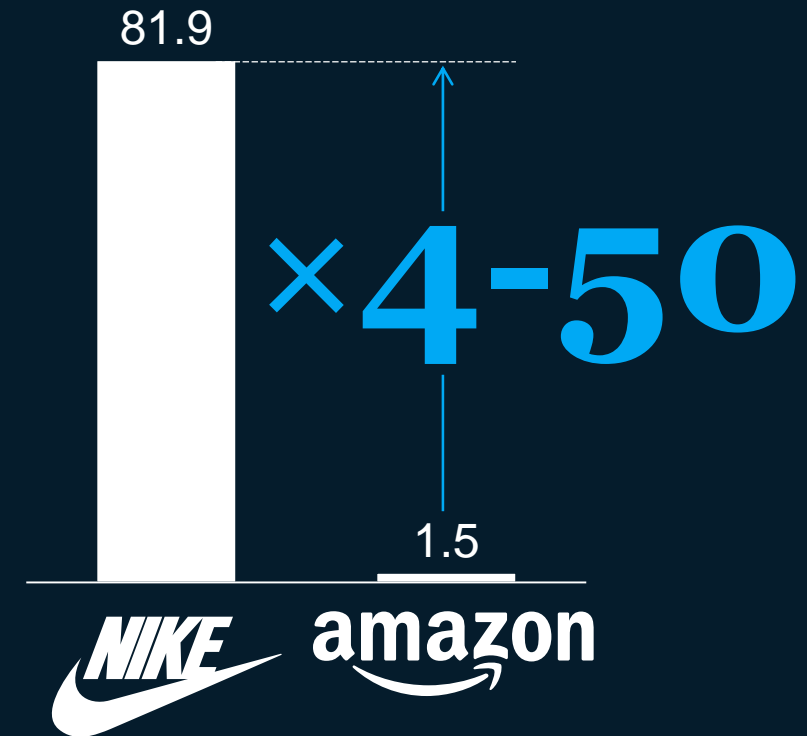


Social commerce is increasingly popular where marketplaces do not have a stronghold

Social media purchases
Percent of responders,
2018



Instagram followers by e-commerce player
Millions, 2018



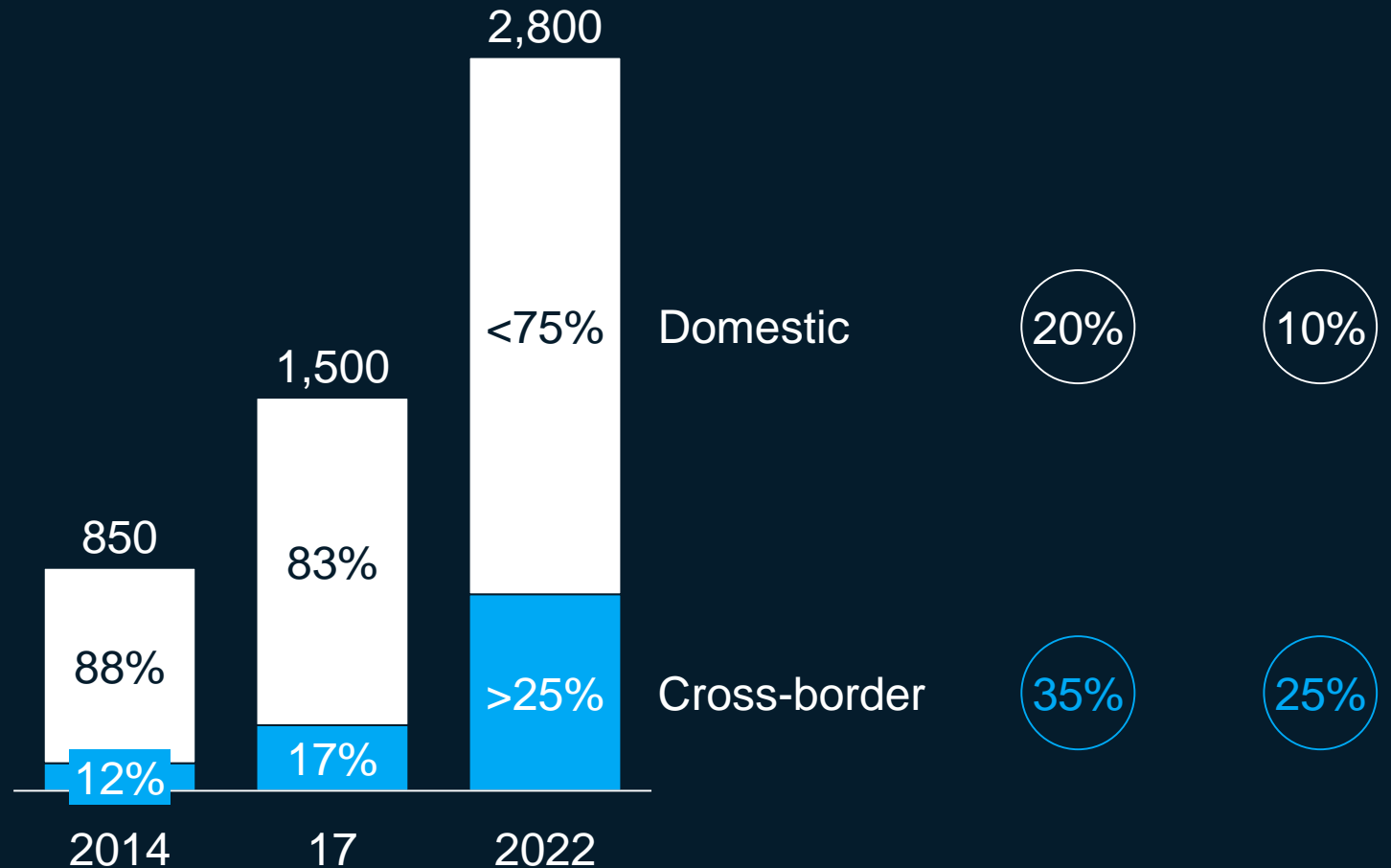
**Cross-border
e-commerce has
an even more
impressive
success story**

Cross-border e-commerce is expected to expand at 25% annual growth rate in coming 5 years

E-commerce gross merchant value
USD billions

CAGR
2014-17

CAGR
2017-22



Why are consumers choosing to buy from non-domestic websites?

Number of customers (out of 10) citing respective reason for shopping cross-border

“

Product availability 

The only way of getting this rugby gear to Australia is to ship it in from the UK

Lower price 

Buying this camera gear straight from Japan saved me EUR 250

Greater selection 

The only way to get the full lineup of my favorite cosmetics brand is to buy it directly from the US

Product quality 

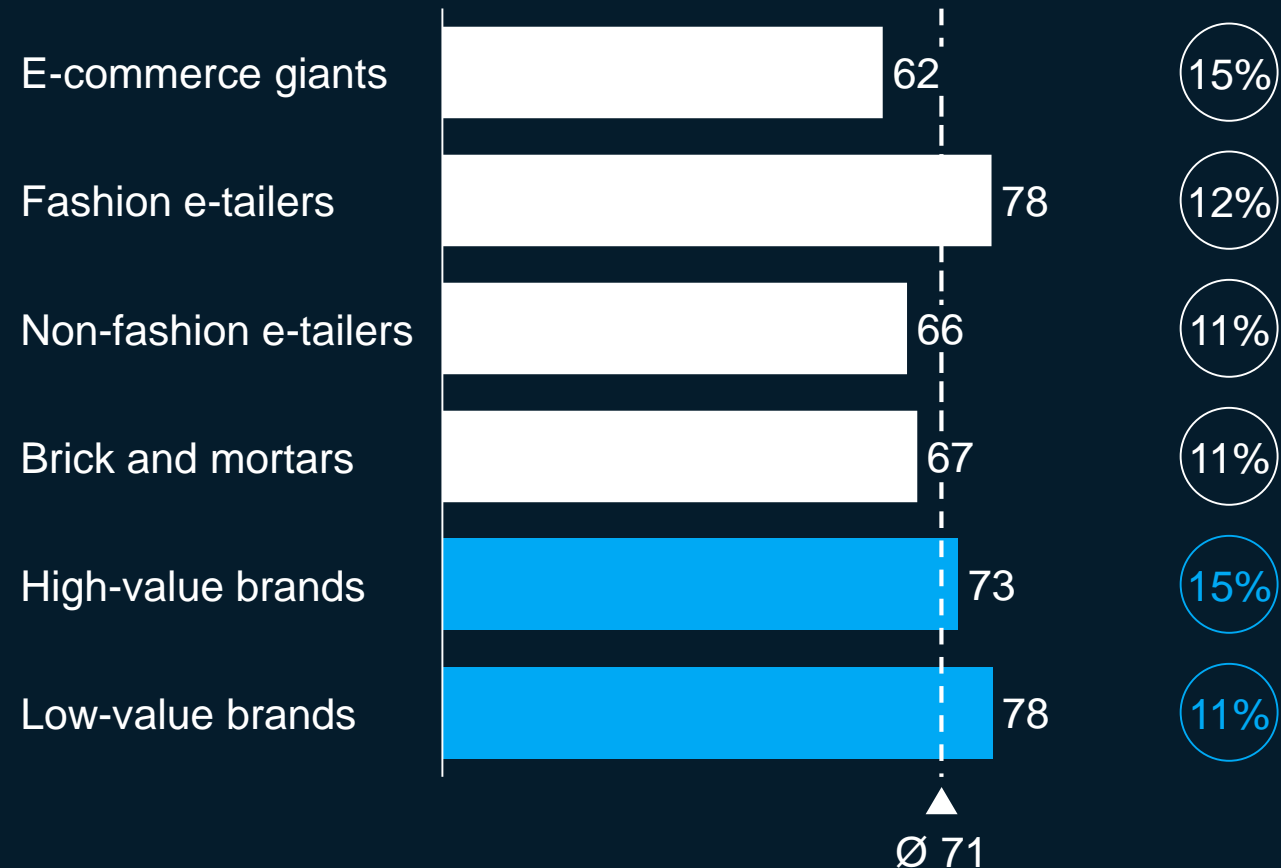
By buying this handbag straight from Italy, I could be sure I get the best product quality

”

Brands are “rising stars” – they expect even higher cross-border growth than other sellers

Share of respondents expecting growth of cross-border revenue share 2016, Percent

Average cross-border share of total revenue, 2016



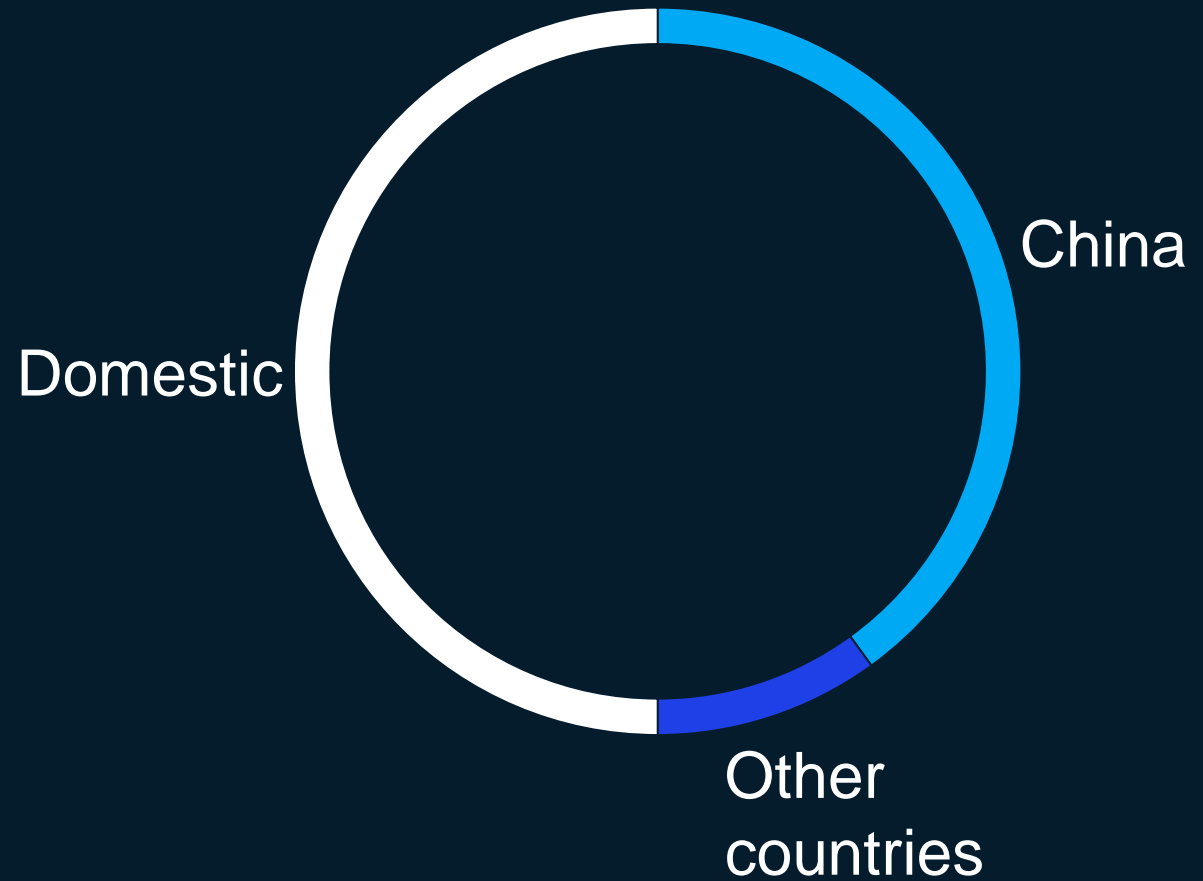


amazon

ebay

AliExpress

Online purchases, Russia Percent



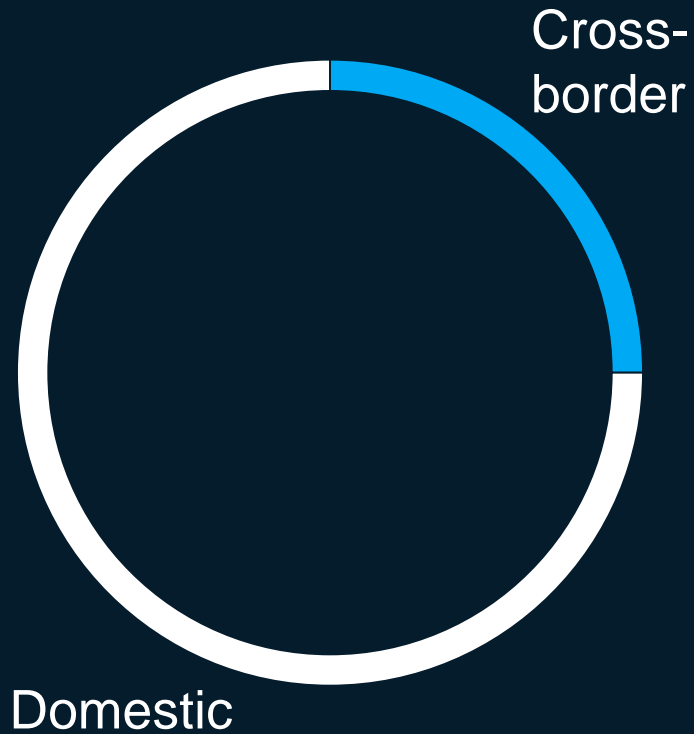
**AliExpress
is already the
clear winner
in Russia**



**Amazon is active
in cross-border
e-commerce
mainly through
their market-
place sellers**

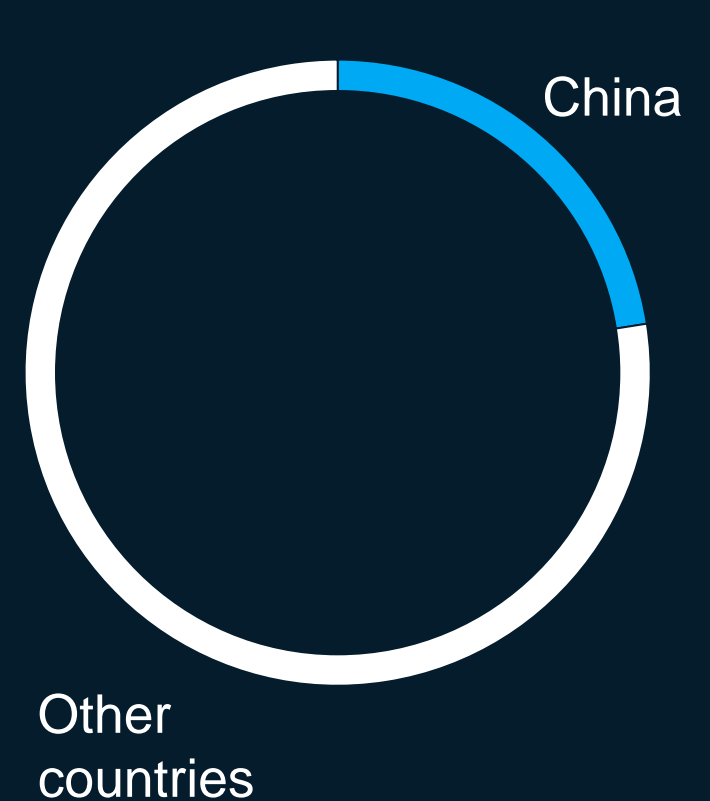
**Online sales from
marketplace sellers**

Percent



**European marketplace
sellers location**

Percent



Cross-border sourcing of bulk volume is different from “cross-border B2C e-commerce”

Cross-border sourcing

Goods are shipped in bulk to warehouse in country of destination (B2C or B2B e-tailer)

Origin

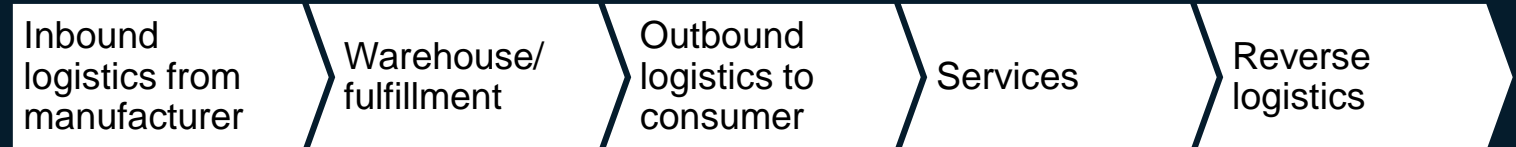


Line-haul

Country of destination (e.g., Germany)

Internal stock replenishment

amazon



Country of origin (e.g., China)

Country of destination (e.g., Germany)



Line-haul

AliExpress

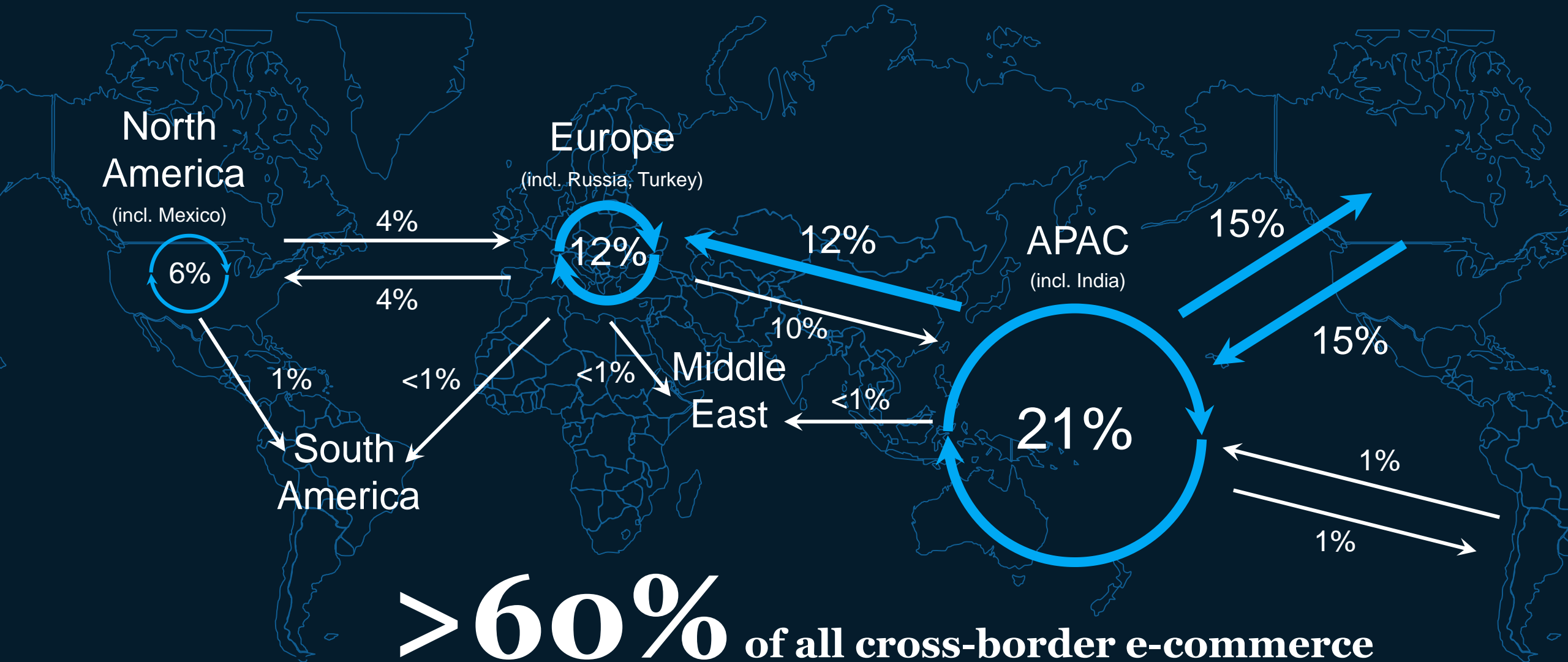
Cross-border e-commerce

Single goods from warehouse directly to end customer (incl. customized goods)

**How big of a market
is cross-border
e-commerce
and will its growth
be sustainable?**

~5 bn shipments annually

% → Percent of total trade
→ Top 5 trade lanes
↻ Intra-regional



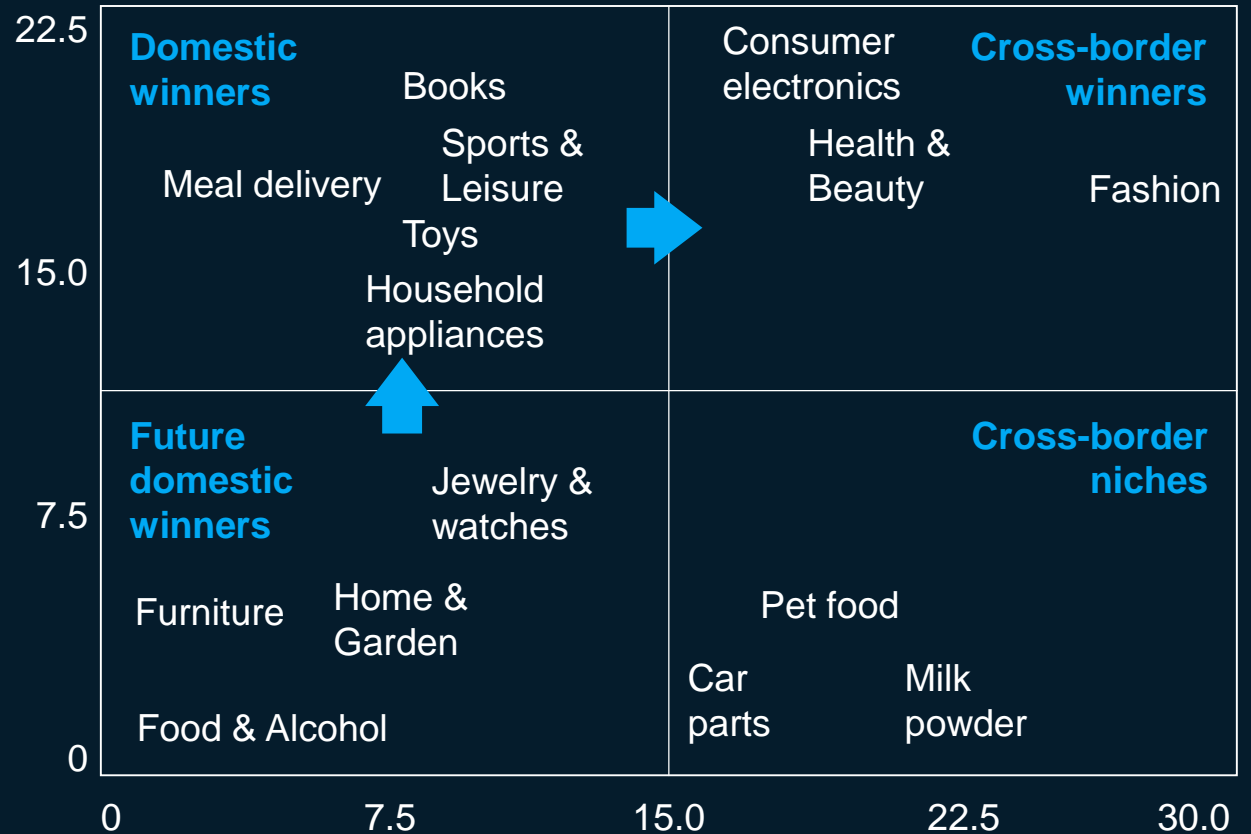
>60% of all cross-border e-commerce shipments are inter-continental

Different product categories will move online and cross-border in the future

Cross-border/online penetration matrix by product categories

Percent of total retail sales

Online purchases
Percent of total retail sales



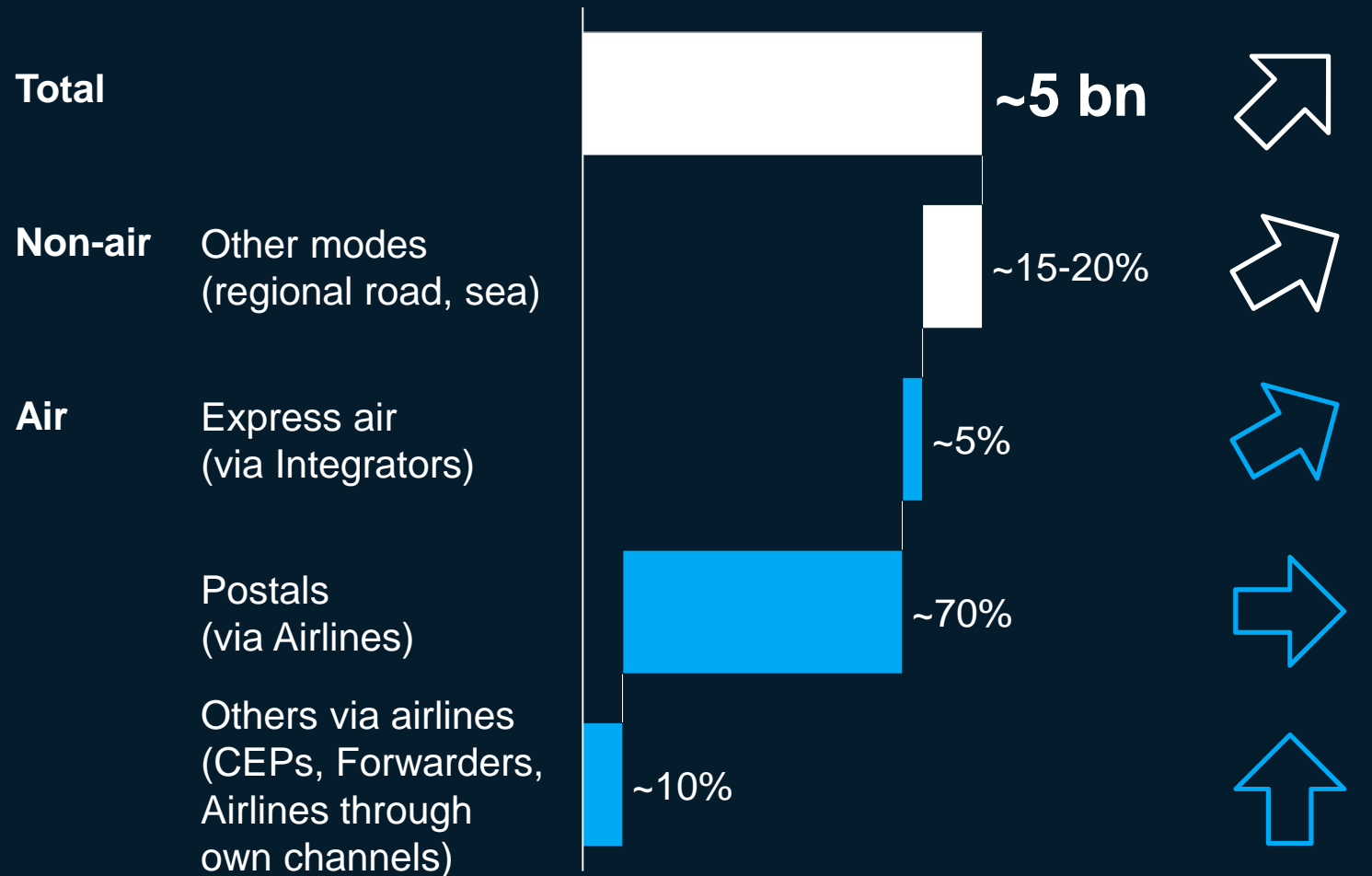
Share of cross-border purchases

Percent of total online sales

**Air cargo is
the critical part in
the cross-border
e-commerce story**

~80% of cross-border B2C shipments are sent via air, most of them channeled through postal companies

Cross-border B2C shipment volume, 2017



**For air cargo,
e-commerce
accounts for
~10% of total air
cargo volumes
and the share
will be growing**



Share of
air cargo
trade
volume

2017

10%

2022+

20%



Share of
air cargo
revenues

5%

12%

**Cross-border e-commerce
is in need for faster,
yet affordable delivery
products – an opportunity
for air cargo**

Slow inter-national postal shipment clashes with the expectation of consumers today and even more tomorrow

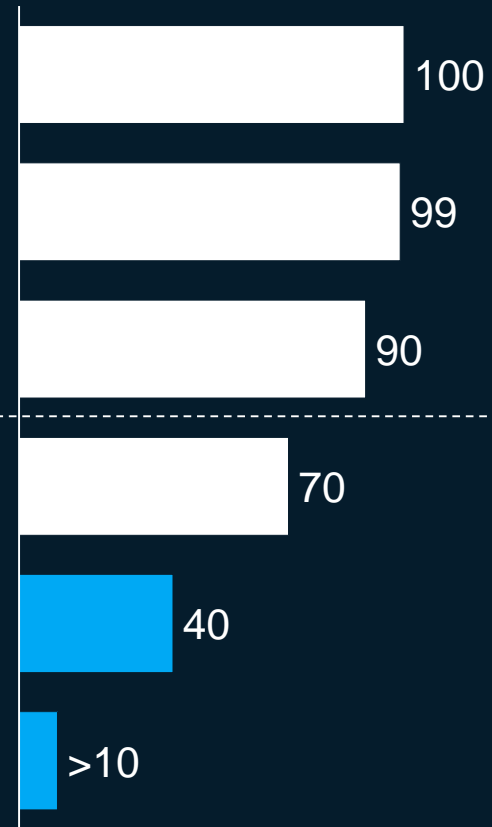
Share of cross-border B2C shipment by delivery time

Percent



Shippers who perceive delivery as acceptable or fast

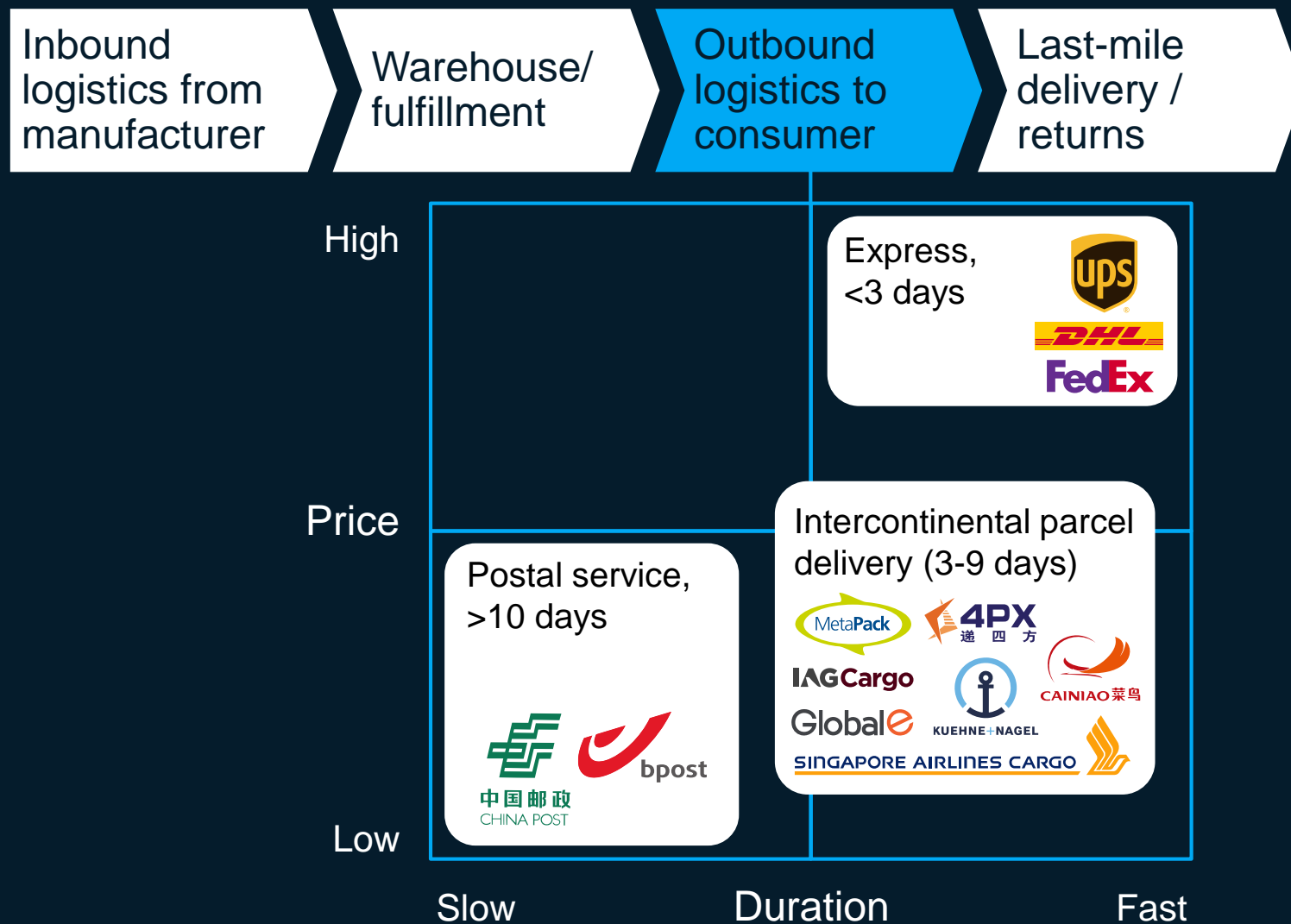
Percent



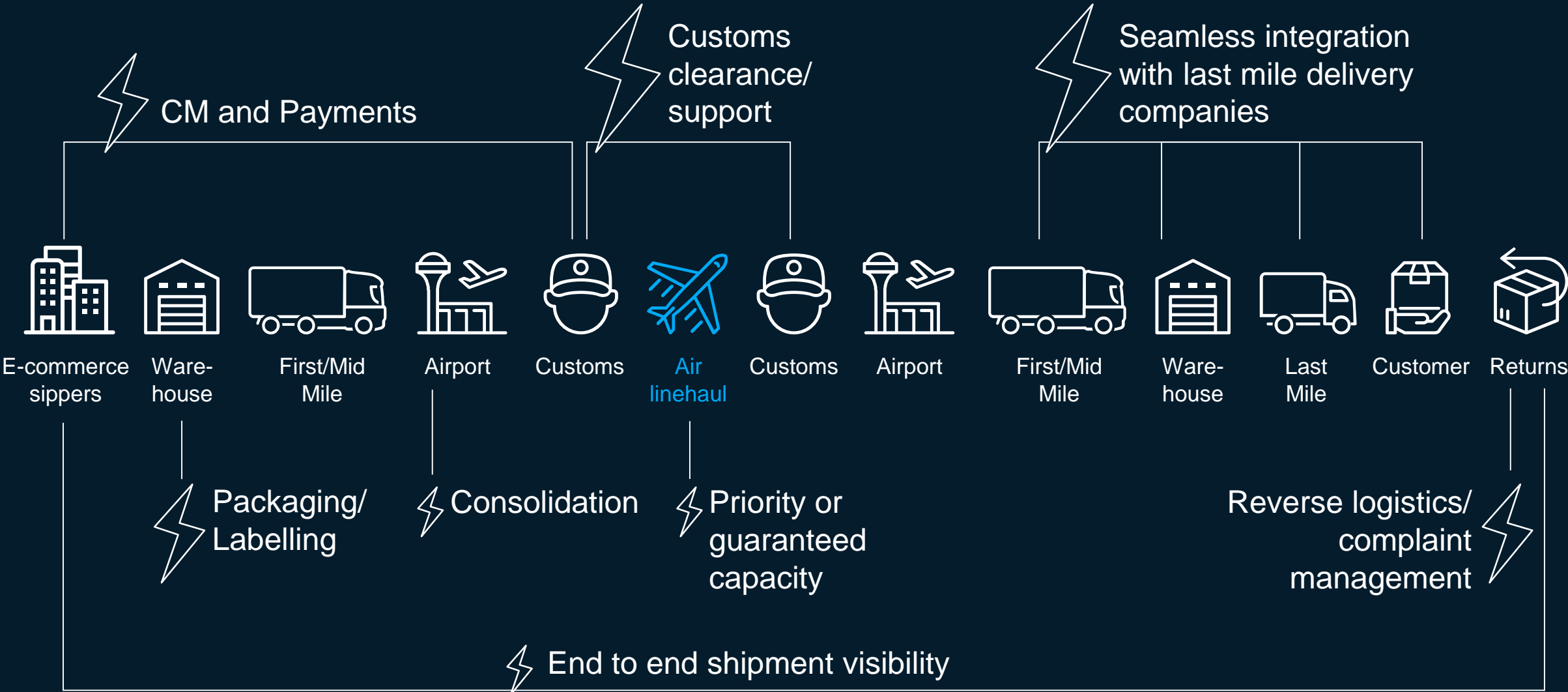
AliExpress
"New normal" following Alibaba's 72h click to door promise

**Competitors
have entered
the market
between express
and postal
cross-border
products**

Cross-border e-commerce value chain (traditional view)



To make 72h delivery promise a reality, air cargo carriers and their partners need to address the pain points of e-commerce shippers



**Cargo airlines
are entering
the cross-border
e-commerce
market,
capitalizing on
its growth**

SINGAPORE AIRLINES CARGO



Assembled E-commerce team to grow partnerships, design customized solutions and shorten shipment times

Zenda IAG Cargo

Launched a door-to-door cross-border E-commerce platform for US to UK deliveries in 4-7 days with direct booking, fully landed cost at checkout and E2E visibility



Lufthansa Cargo

Announced launch of cross-border e-commerce fulfillment service at the end of 2018; Entered into a joint freight operation agreement with China Post

McKinsey
& Company

E-commerce and air cargo: a match made in heaven?

**It's in the hands of
cargo airlines: strike
while the iron is hot, or
maintain the status quo**

