Cargo shipment demand to pick up soon

KOWSHER JAHAN KHALED, *back from Dubai*

DEMAND for cargo shipment is expected to rise from the second quarter of this year, following a downturn in the business for a long time due to a recession in the western world, said a senior official of Emirates.

"For many reasons we have been in the downtrend for a long time. Hopefully, in the next five-six months all the inventories, which were built up in various markets, will come down," said Ravishankar Mirle, regional manager, cargo commercial operations of Asia and Australasia, Emirates.

Mirle particularly pointed at the months of June and July that also coincide with Bangladesh's peak when the winter collection begins to hit malls across Europe and US.

"Out of Bangladesh, we carry a lot of readymade garments -- all the branded items you see in the retail markets across the world -- and a lot of these are made in Bangladesh," he said in an interview at Emirates Group Headquarters in Dubai.

Emirates runs the cargo business through its brand SkyCargo and its fleet includes eight freighters (three Boeing 747-400Fs, one 747-400ERF and four 777Fs). It now serves 122 destinations in 72 countries on six continents.

In fiscal 2010-11, Emirates SkyCargo carried 1.8 million tonnes of cargo, an improvement of 11.8 percent over 1.7 million tonnes in the previous year. Cargo revenue, at $ 2.4 billion, including mail and courier, contributed 17.4 percent of the airline's total transport revenue.

In August 2011, Emirates SkyCargo took delivery of its third Boeing 777F. Scheduled freighters now operate in 27 destinations.

It also carries a lot of perishables, especially vegetables for the expatriate Bangladeshis in the US and Middle East, couriers, newspapers, pharmaceuticals and metallic golf shafts made in Bangladesh.

Ravishankar Mirle

The airline carried around 15,000-20,000 tonnes of cargo from Dhaka to other places in 2011 and perishable items account for 20 percent.

Mirle was especially optimistic about Bangladeshi pharmaceuticals.

He said Bangladesh's pharmaceutical market is just picking up and there is high demand for temperature sensitive cargoes worldwide.

"Very recently, Bangladesh is seeing a growth in pharmaceuticals. I understand, outside of Dhaka there is going to be a pharmaceuticals corridor where a lot of pharmaceuticals will be manufactured."

"So we see a lot of potential," he said.

He also said Bangladesh enjoys concession and incentives to develop its pharmaceutical industry. Twenty years ago, Bangladesh had to import pharmaceuticals, but now it has started exporting, which is a good sign, he added.

The demand for pharmaceuticals is constant throughout the year, even during recession, and it only increases, he said.

"The type of production Bangladesh does is bulk and these are raw materials for products from other parts of the world."

The official said they provide strong logistic support and strictly maintain the quality of services as global pharmaceutical companies are interested in the way Emirates carries these products.

"Quite a few leading pharmaceutical companies have repeatedly visited our operations in Dubai. They have audited our operations in origin and in destination as well, and in all points, we came out successful."

The companies continuously evaluate the airline to make sure it can maintain the requirements on temperature, hygiene and safety.

Mirle said the fundamentals in Bangladesh are strong; the quality of production -- particularly of garments -- is good; the buyers continue to come to Bangladesh; the cost of production is good; and deliveries are shipped in time.

"So there is no reason why the market will not come back," said the official.

Hong Kong, Shanghai, India, UAE and Germany are the top five markets for Emirates SkyCargo, while Bangladesh is among the top 15.

Bangladesh accounts for about 1 percent of total products at around 1.8 million tonnes the airline carries a year.

Though the share is insignificant, Mirle said the Bangladesh market is important for them as a lot of Bangladeshi exports go to the US and Europe where the airline has strong operations.

"We concentrate heavily on the Bangladesh market and we take it very seriously."

Mirle also expressed satisfaction over the present level of efficiency in Chittagong Port and said things have improved much in the last year and half.

"We were talking about congestion, power, weighing scales and screening machines at the airport, and changes have happened in the last 18 months as authorities have made investment to improve the situation," he said.

Mirle also talked about the current challenges they face globally -- rising fuel prices being on the top. The airline spends more than 40 percent of its operating costs on fuel alone.

Public relations firm Triune arranged a media trip for a group of Bangladeshi journalists to the Emirates Headquarters in Dubai at the invitation of the airline. Triune Chief Executive Kazi Wahidul Alam led the team.

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Delivering with delight

STAR BUSINESS DESK

THE most important part of Emirates' cargo operations is its Cargo Mega Terminal in Dubai airport.

The terminal incorporates a mix of automation and flexibility, designed to help the hub expedite shipment process cycle times while drastically minimising warehouse discrepancies.

Emirates SkyCargo moved its entire hub operations into the 43,600 square metre state-of-the-art mega terminal in February 2008.

Designed with its partners at the Dubai Civil Aviation Authority and Dubai Cargo Village, the new hub has an annual capacity of 1.2 million tonnes.

A visit to the terminal shows an extensive handling area comprising a five-storey Automatic Storage and Retrieval System (ASRS), which has more than 10,000 cargo storage locations, and a sizeable seven-storey Pallet Container Handling System (PCHS) with a storage area for 2,500 Unit Load Devices (ULDs).

To ensure that cargo can be loaded, unloaded and transferred quickly and efficiently, the new facility has a large number of airside ULD entry and exit gates -- 78 in total.

Within the terminal, there are 133 work stations for cargo build up and break down, with 14 of these stations specifically designated for perishable cargo.

To ensure the swift acceptance and delivery of shipment, the terminal has a total of 46 truck docks for loose cargo, with 12 of these specifically for perishable cargo.

The mega terminal is designed to cater to a large number of temperature-sensitive shipments. Its temperature-controlled handling and storage area account for 7,000 square metres of the terminal. Two large areas are kept at 5°C and 15°C respectively, and are complemented by a freezer set at -18°C and a large number of cool storage cells with a range of possible temperature settings between 4°C and 18°C.

Emirates SkyCargo has a dedicated team based at the terminal, comprehensively trained in the cargo handling needs of a wide range of products.

Authorities including Dubai Customs, the Department of Civil Aviation and the UAE Ministry of Agriculture and Fisheries are conveniently located in the same building, allowing for speedy export acceptance and import delivery.

STAR

Lorries and other vehicles ply a road in front of a cargo terminal of Emirates near Dubai International Airport recently.

COMPANIES AND PRODUCTIVITY

Small is not beautiful

Why small firms are less wonderful than you think

THE ECONOMIST

PEOPLE find it hard to like businesses once they grow beyond a certain size. Banks that were "too big to fail" sparked a global economic crisis and burned bundles of taxpayers' cash. Big retailers such as Walmart and Tesco squeeze suppliers and crush small rivals. Some big British firms minimise their tax bills so aggressively that they provoke outrage. Films nearly always depict big business as malign. Tex Richman, the oil baron in the latest Muppets movie, is so bad he reads The Economist. Small wonder that whenever politicians want to laud business they praise cuddly small firms, not giants.

It is shrewd politics to champion the little guy. But the popular fetish for small business is at odds with economic reality. Big firms are generally more productive, offer higher wages and pay more taxes than small ones. Economies dominated by small firms are often sluggish.

Consider the southern periphery of the euro area. Countries such as Greece, Italy and Portugal have lots of small firms which, thanks to cumbersome regulations, have failed lamentably to grow. Firms with at least 250 workers account for less than half the share of manufacturing jobs in these countries than they do in Germany, the euro zone's strongest economy. A shortfall of big firms is linked to the sluggish productivity and loss of competitiveness that is the deeper cause of the euro-zone crisis. For all the boosterism around small business, it is economies with lots of biggish companies that have been able to sustain the highest living standards.

Big firms can reap economies of scale. A big factory uses far less cash and labour to make each car or steel pipe than a small workshop. Big supermarkets such as the villainous Walmart offer a wider range of high-quality goods at lower prices than any corner store. Size allows specialisation, which fosters innovation. An engineer at Google or Toyota can focus all his energy on a specific problem; he will not be asked to fix the boss's laptop as well. Manufacturers in Europe with 250 or more workers are 30-40% more productive than "micro" firms with fewer than ten employees. It is telling that micro enterprises are common in Greece, but rare in Germany.

Big firms have their flaws, of course. They can be slow to respond to customers' needs, changing tastes or disruptive technology. If they grew big thanks to state backing, they are often bureaucratic and inefficient. To idolise big firms would be as unwise as to idolise small ones.

Rather than focusing on size, policymakers should look at growth. One of the reasons why everyone loves small firms is that they create more jobs than big ones. But many small businesses stay small indefinitely. The link between small firms and jobs growth relies entirely on new start-ups, which are usually small, and which by definition create new jobs (as they did not previously exist). A recent study of American businesses found that the link between company size and jobs growth disappears once the age of firms is controlled for.

Rather than spooning out subsidies and regulatory favours to small firms, governments should concentrate on removing barriers to expansion. In parts of Europe, for example, small firms are exempted from the most burdensome social regulations. This gives them an incentive to stay small. Far better to repeal burdensome rules for all firms. The same goes for differential tax rates, such as Britain's, and the separate bureaucracy America maintains to deal with small businesses. In a healthy economy, entrepreneurs with ideas can easily start companies, the best of which grow fast and the worst of which are quickly swept aside. Size doesn't matter. Growth does.

Wal-Mart's price push tests manufacturers' prowess

REUTERS, *New York/Chicago*

Consumer staples companies have a problem. It costs more to make everything from soup to soap to soda, but when they raise prices they turn off consumers and strain their relationships with Wal-Mart Stores Inc, their biggest customer.

For some companies, like Clorox Co and Kraft Foods Inc, the problem can be comparatively easy to handle. They either have brands that consumers like, and therefore Wal-Mart needs, or they are big enough to have significant negotiating power.

But Wal-Mart is now pushing its grocery suppliers harder to offer consistently low prices, instead of timed promotions or "rollbacks." That means food companies are unlikely to be able to pass through more price increases and will be forced to pull other levers, such as cost-cuts to protect margins or product innovation to drive sales.

And with many consumer goods stocks trading at a premium to the broader market, analysts say the risk is on the downside. In particular, they see pressure on companies with second- or third-tier brands, such as ConAgra Foods Inc, whose Hunt's ketchup competes with Heinz.

Shares of makers of packaged food that raised prices too much, like General Mills Inc, whose products range from Cheerios cereal to Progresso soups, also may face pressure.

Consumer staples companies that make up two Standard & Poor's indexes -- the S&P 1500 Packaged Foods & Meats Index and the S&P 1500 Household & Personal Products Industry Group Index -- trade at nearly 16 times expected earnings, while companies in the S&P 500 index trade at 12.8 times expected earnings.

"I think we reached the wall in terms of raising price. Consumers can't take any more," said Edward Jones analyst Jack Russo, citing recent Nielsen data showing correlations between price increases and declines in sales volume.

"A lot of these companies are going to have to get back to basics and not raise prices much, and if they want to grow sales they're going to have to do it through innovation, or being razor-sharp on pricing."

For example, General Mills' sales volume fell 11.3 percent in the 12 weeks ended February 18 after the cereal maker raised its average selling price by 11.5 percent with a combination of price hikes and a mix of higher-priced goods, Russo said, citing Nielsen.

One silver lining is that cost pressures are abating, as prices of many commodities, among them corn and wheat, have eased in recent months. Among packaged food stocks, Edward Jones recommends General Mills, Kellogg Co and McCormick & Co. It has a "Hold" rating on Hormel Foods, ConAgra, Hershey Co, Campbell Soup and Kraft Foods Inc.

For Wal-Mart, the biggest grocery seller in the United States, lowering prices on a long-term basis can help it convince shoppers that it is the best place to go for everyday items.