The Low Cost Carrier Bandwagon: Lessons for Skywise Airline

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Abstract

The domestic aviation sector in South Africa has been characterised by the demise of many local owned airlines. Aviation is important for business, citizens and tourists because it provides a high speed transport network. In addition, aviation is able to become a catalyst for other industries and most cities use it as a growth point. The deregulation of aviation has allowed the establishment of low cost carriers that have decreased the cost of air travel and created the catalyst for regional airports. The history of aviation in South Africa has been characterised by the demise of many low cost carriers from Velvet Sky, 1Time, and Skywise. There are several lessons that can be learnt specifically from the demise of Skywise and 1Time. This literature study analyses secondary data to present a compelling argument that will fill hopefully a gap in literature on aviation in South Africa.

Keywords: aviation, tourism, low cost carrier, South Africa, Skywise, 1Time, FlySafair

Introduction

Tourism destinations attract tourism because of the positive economic impacts such as labour intensive jobs, tourism acting as a catalyst for other industries, the attraction of foreign exchange, and foreign direct investment that comes with tourism. As mining is cutting jobs, tourism has the potential to save those jobs due to the labour intensive nature of tourism jobs. This means that the growth of tourism ideally leads to a growth of jobs. Today, South Africa attracts more foreign exchange from tourism than gold mining, hence tourism is regarded as the "new gold". According to Henama (2013:231) "tourism is an attracter of foreign exchange par excellence...The tourism industry is an export industry because the tourism product offering is consumed at the destination area, and hence it has to be consumed on site, at the destination. Tourism offerings are characterised by fixed location, which means that the highly sought after tourism experience can only be produced at the destination area, and the tourist must travel to the destination area". This allows the majority of the value adding to occur in South Africa, allowing forward and backward linkages in the economy.

The aviation industry in South Africa has grown since deregulation in the 1990s as new private airlines have entered the aviation industry. The state owned South African Airways (SAA) has played a prominent role in the aviation industry. The state owned Airports
Company of South Africa (ACSA) has a monopoly in the provision of airport facilities in South Africa according to Henama (2014). The pioneer Low Cost Carrier (LCC) in South Africa was kulula.com launched by Comair/British Airways, followed by 1Time. Increased aviation capacity has been brought about by the entry of low cost carriers such as kulula.com, 1Time, Mango, Velvet Sky, FlySafair, Cemair and Blue Crane. The intense competition for customers, low volumes during the financial crisis and the high price of oil have all had a detrimental impact on the success of airlines. The liquidation of two lost cost carriers in 2012, namely Velvet Sky and 1Time has decreased capacity and this will increase the market share of the legacy airlines and drive up the cost of aviation. “The 2nd November in 2012 was the day that 1Time ended all its flights, just like Velvet Sky on the 22 February 2012, leaving may customers stranded” Henama (2014:5.) In 2015 another LCC, Skywise was grounded for failing to pay its creditors, namely the Airports Company of South Africa (ACSA) and Air Traffic and Navigation Services (ATNS) according to Henama (2015).

The Airlift Strategy 2006 sought to regulate air transport in support of the Tourism Growth Strategy. Van Schalkwyk (2013) noted that tourism is a ‘midwife’ for air transport growth. The Accelerated and Shared Growth Initiative-South Africa (ASGISA) which was a government policy to spur economic growth identified tourism as a priority sector with a barrier to growth being air access. The year 2015 was politically the most imperative year ever since President Jacob Zuma created a separate Ministry of Tourism in 2009, as tourism attained national recognition and increased its political significance. On 1 June 2015, South Africa introduced new visa regulations that required that children have unabridged birth certificates with them when travelling and tourists must also submit biometric data in person when applying for travel to South Africa from abroad. The introduction of the visa regulations led to intense lobbying by the tourism industry to have them changed. As a result of the intense lobbying, an inter-ministerial committee was established that agreed on concessions that would allow for growth in tourism whilst addressing homeland security challenges.

According to The Economist (2015) a study by Grant Thornton, commissioned by the Tourism Business Council of South Africa, said the country’s tourism industry lost 886m rand ($82m) in direct spending last year because of the new visa regulations and that South Africa would lose 100,000 tourists. According to Department of Home Affairs (2015) the recommendations of the Inter-Ministerial Committee were adopted by the Cabinet and implemented in the country. Tourism has been accepted as a critical industry and increasingly an engine for growth. According to Steyn & Spencer (2011) noted that tourism has been positioned as a strategic industry, both in terms of contribution to the national economy and job creation.

In recent years, the airline industry was beset by high fuel costs that have exceeded labour costs. Slabbert (2015a) noted that FlySafair was lucky to launch when the price of oil had decreased by around 50 percent. The decrease of the price of jet fuel could not be translated into savings, as the South African Rand depreciated against major currencies. The aviation industry requires deep capital investments, thereby meaning that the barriers of entry are quiet huge. The intense competition from 2014 has meant that profit margins have been challenged by the sales promotional techniques of trying to the under-price each other. The intense competition occurs when aviation demand domestically is low, and the prices are decreasing. The airline industry is glamourous but it is a tough industry to operate in. Steyn (2012) notes that as one airline folds, another seems to pop up, despite the notoriously tough industry.

Pearce (2012) noted that aviation is capital intensive as it takes an average $1 of capital invested to generate $1 of annual revenue. According to the World Tourism Organisation (2012) noted that without airlines some continents, many countries, and islands would have remained inaccessible for most of us and even established destinations would have had
fewer tourists. Therefore tourism depends on aviation for tourism growth and the growth trajectory of aviation means more tourists for destinations.

The development of Low Cost Carriers in South Africa

"The advent of LCCs has also ensured that air travel is not elitist by offering a no frills travel service to the bulk of the travelling markets. This would obviously translate to mode switching from slower means of transport to LCCs" Henama (2013a:61). According to Diggines (2004:119) "kulula.com was officially launched for sale to the public on 5 July 2001. The inaugural flight to Cape Town took place, as mentioned earlier, on 1 August 2001 with three return flights". The massive growth of aviation has resulted in it having a greater contributor toward pollution and climate change. This is based on tourism being dependent on air travel as a means of providing a fast transport system to bring tourists. Aviation is expended to grow more, as noted by Friends of the Earth (2005) that the industry is expended to grow massively in the next thirty years, continuing the trend of previous decades. The taxation of aviation is a contentious issue considering that airlines are against taxation arguing that taxation will divert needed financial resources that would allow the airlines to buy new generation airplane that are more fuel efficient, fly faster and have a lower carbon footprint. "Johannesburg (Gauteng Province, South Africa) has one major international airport, Oliver R. Tambo International Airport (ORTIA) and a number of smaller regional airports, of which Lanseria International Airport (LIA) is the major competing airport in terms of domestic flights...Currently, two low-cost carriers (kulula.com and Mango) offer domestic services from LIA to Cape Town International Airport (Western Cape Province, South Africa) and King Shaka International Airport ( Durban, KwaZulu-Natal Province, South Africa)" Carstens (2014: 149).

In as much as LIA is a secondary airport, with lower costs than ACSA airports, Comair signed an exclusive agreement with LIA which was anti-competitive which led to this being issue being referred to the Competition Commission for investigation and a sanction. According to Prinsloo (2010) 1Time would be able to operate from Lanseria at the end of the airport’s five year exclusive use agreement with kulula.com that ends in March 2011. The first low cost carrier (LCC) to launch in South Africa was kulula.com launched by Comair/British Airways as noted by Diggines (2004). 1Time was the darling considering that it was the second airline to list on the stock exchange. Comair is listed on the JSE mainboard, whilst 1Time was initially listed on the AltX, the alternative exchange for smaller companies, until they built enough competence to list on the JSE main board. According to Prinsloo (2010) low-cost carrier 1Time graduated to the JSE main board from the AltX, on which it listed in 2007. When 1Time was transferred to the JSE main board it was one of the best performing AltX stocks, and according to JSE (2010) it had a market capitalisation of R225 million with a share price that increased by 138 percent in the one-year period. 1Time applied for business rescue before it was grounded (2 November 2012) and subsequently liquidated.

This differs from Skywise Airline which was grounded without have to apply for business rescue. Before the demise of 1Time in 2012, in 2011 according to Planting (2011:1) "the price of jet fuel has risen by 20 percent this year, and airport taxes, which has trebled over the past three years...With four low-cost airlines operating in SA-Kulula.com, Mango, Velvet Sky and 1Time-the skies are crowded. In addition, SAA, Comair, SA Express, and BA also compete for the diminishing customer base". 1Time has been blamed for its demise on continuing to use fuel efficient airlines, instead of following the example of Comair by pursuing cost efficiencies. According to Baker (2013) Comair was phasing out the 737-400s in 2013 in favour of 737-800s which represented an 18 percent fuel saving when compared
with the 737-400s. Skywise decided as noted by Baker (2013) to use the less fuel efficient 737-300s on lease to ferry passenger on the initial route between OR Tambo and Cape Town International Airport. Henama (2014) noted that 1Time used the less fuel efficient McDonnell Douglas MD-80 that had fewer seats, whereas 1Time competitors were flying Boeing 737-800s, which had more seats, and more fuel efficient, leading to massive costs savings. Travelstart (2015) the pioneer of online travel, on 18 March 2015, released information that 18 routes were cheaper in February 2015, when compared to February 2014, and that the aviation demand was up by 38.

<table>
<thead>
<tr>
<th>Route</th>
<th>% Increase in Bookings</th>
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<tbody>
<tr>
<td>George-Cape Town</td>
<td>+132%</td>
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<tr>
<td>Cape Town-George</td>
<td>+120%</td>
</tr>
<tr>
<td>Port Elizabeth-Cape Town</td>
<td>+86%</td>
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<tr>
<td>Cape Town-Port Elizabeth</td>
<td>+60%</td>
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<tr>
<td>Johannesburg-George</td>
<td>+40%</td>
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<tr>
<td>Johannesburg-Cape Town</td>
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<tr>
<td>Cape Town-Durban</td>
<td>+34%</td>
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<tr>
<td>Cape Town-Johannesburg</td>
<td>+34%</td>
</tr>
<tr>
<td>Port Elizabeth-Johannesburg</td>
<td>+22%</td>
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<tr>
<td>Johannesburg-Port Elizabeth</td>
<td>+21%</td>
</tr>
<tr>
<td>Durban-Cape Town</td>
<td>+16%</td>
</tr>
<tr>
<td>George-Johannesburg</td>
<td>+16%</td>
</tr>
<tr>
<td>Johannesburg-East London</td>
<td>+1%</td>
</tr>
</tbody>
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Table 1: Routes that have increased in demand in 2015, when compared to 2014

Source: www.travelstart.co.za/lp/media/domestic-flight-prices-decrease

With reference to Table 1, what is clear is that the majority of the route growth was around the major tourist areas, namely George, Port Elizabeth and Cape Town, around the so called Garden Route. This means that these major tourism leisure routes were under serviced and possibly over-priced, and the introduction of competition, has stimulated more demand, thereby making those routes attractive. The demise of the Skywise would be the 12th demise of a privately owned airline in South Africa.

Lessons from Blue Crane and CemAir

According to Department of Public Enterprises (2012) South African Airways indicated that the Board Chairperson, Mr. Vuyisile Kona had accepted the resignation of SAA CEO, Ms Siza Nzimela. Nyoni (2015) noted that Siza Nzimela is the co-founder and CEO of Fly Blue Crane after she had resigned her position as CEO of SAA, the first woman CEO of SAA.

The resignation of SAA CEO Siza Mzimela was the catalyst for the creation of another LCC in South Africa, Fly Blue Crane. Fly Blue Crane is owned by a Port Elizabeth gynaecologist, and is headed by former SA CEO Siza Mzimela. Siza Mzimela brings with her good experience that is valuable in running an aviation business. African Cargonews (2015) noted that the management team at Fly Blue Crane include the aviation experienced Siza Nzimela, Theunis Potgieter, and Jerome Simelane, all ex-SAA executives. The demise of Skywise had improved the aviation environment for all existing airlines, as it took out aviation capacity benefiting the exiting airlines. Blue Crane was launched on 1 September 2015, with a special focus on serving customers outside of the Golden Triangle of Johannesburg-Cape Town-Durban, which has intense competition as noted by Fin24 (2016). Luke & Walters (2013) define the ‘Golden Triangle’ as the cities of Durban-Johannesburg-Cape Town which had high density that the low cost carriers highly targeted with their flights schedules.
According to Timeslive (2015) Fly Blue Crane began flights between Johannesburg to Bloemfontein, Kimberley and Nelspruit. The initial schedule will begin with five flights a day to Bloemfontein during the week, with two flights on Saturday and three on Sunday. Kimberley will be serviced with three flights a day during the week, one flight on Saturday and two on Sunday, whilst Nelspruit will be serviced with two flights daily from Monday to Friday, and one on Saturday and on Sunday according to Timeslive (2015). According to Timeslive (2015) the airline uses the modern and fuel efficient 50-seater Embraer Regional Jet 145 (ERJ) aircraft in a single class configuration to allow for quick aircraft turnaround and maximum crew synergies. By focusing on these cities, Fly Blue Crane was breaking the monopoly of SAA and South African Express, as these routes have less competition when compared to the Golden Triangle, where the margins for profit making are low. The success of domestic tourism is based on the destinations outside of Johannesburg, Durban and Cape Town trying their best to break the monopoly of these urban cities on the total domination of aviation traffic. Fin24 (2016) noted that Fly Blue Crane launched its first regional flights between Cape Town and Windhoek in Namibia. There increasing competition between airlines in South Africa leads to an over-trading on the Johannesburg-Cape Town route, leaving immense opportunities for entry-level airlines to focus on other routes, which CemAir started to fly to cities such as Kathu, Margate and Plettenburg Bay. According to Fin24 (2014) Fly Cemair saw a gap in the market and launched flights from 09h00 from Johannesburg to arrive in Plettenburg Bay at 11h30, leaves Plettenburg Bay at 12h00 to arrive in Cape Town at 13h15. Therefore Fly Cemair creates its own triangle, between Johannesburg-Pletttenburg Bay-Cape Town.

Killing Competition: The Case of FlySafair

FlySafair indicated that it will be taking off on 16 October 2014 according to BizCommunity (2014). The launch date of 2014 was after the airline was initially interdicted to fly by competing airlines on aspects related to shareholding. Fin24 (20140 noted the airline was initially blocked because it did not meet the requirements of 75% domestic ownership requirements. According to D’Angelo (2014) FlySafair was granted an operating license in April 2013, after it was grounded in October 2013 before operating its first flight; it had already hired staff members that it retained during that 10 month period. Maqutu (2014a) noted that FlySafair has an existing infrastructure as it is a subsidiary of Safair, which is a management and leasing company that has been in business for more than 50 years. FlySafair (2015) noted that FlySafair began by flying between Johannesburg and Cape Town, and then after two weeks launched flights from Cape Town to Port Elizabeth, and lastly, between Cape Town and George. When FlySafair conducted the broad based black economic empowerment deal (BBBEE) to change its shareholding structure to ensure its 75 percent owned by South Africa, the Employee Share Ownership Programme (ESOP). The ESOP at FlySafair were given 25.14 percent stake. In order to keep market share airline would do whatever is possible to prevent the entry into a market with low margins, and high competition.

Additional Revenue Streams

A sustainable business would have several revenue streams to ensure that it remains robust. Mango was one of the first airlines to sell wifi-access in their aircraft as a means of increasing their profit margins and creating a platform for additional revenue streams. According to Bryan & Dastin (2015) “airlines are trying to draw passengers away from low-price comparison sites and back to their home pages, seeking to boost profits by selling extra services such as additional legroom or access to airport lounges. Airlines across Europe and the US are experimenting with strategies to bring travellers back to their own
websites. These range from improving the booking process to adding fees to tickets booked using third-party distribution, which themselves charge airlines for these services. Many airlines see customising travel packages with lounge access, extra legroom or hotel stays and restaurant bookings as an area in which revenue has the greatest scope to grow...Ryanair, leading the way in selling such add-ons, gets more than 30 percent of its revenue from ancillaries”. The LCC model has never been exclusively about the expansion of the leisure market.

The business market has been doing mode switching to increasingly use LCCs in order to capitalise on cost savings. In order to grow market share in the corporate market, both Mango and kulula.com according to Eastern Cape Mirror (2013) noted that on 1 February 2013, kulula.com introduced flexi tickets, similar to Mango Flexi, which allows customers to change flights without incurring any additional payment by paying a premium price. This gives LCCs the ability to make further inroads into the market share of the legacy operators. Mango in order to reduce perishability launched the first mobile application that can be used across all platform (Android, Apple, Blackberry 10) to allow for customers to book and pay for their flights using their smart phones according to BizCommunity (2014). In addition, Voyager, the loyalty programme of SAA, would allow for use of purchase of Mango tickets, opening up Mango for a bigger market. Edcon (2016) is the largest non-food retailer in South Africa, which has been in operation for more than 80 years. According to Maqutu (2013) Mango and Edgars reached an agreement where Edgars account holders to buy Mango tickets using their Edgars debt cards. It was therefore creative for Mango to partner with Edgars to allow the use of the Edgars debt cards for purchasing the airline tickets. This in addition, opened up a whole new market. I am of the view that new LCCs must possibly partner with RCS cards, to increase their market base. Comair, which has an agreement with the loyalty programme of First Rand Bank (part of the Rand Merchant Group), eBucks, leads to some element of loyalty as FNB customers that book on Comair are able to benefit with eBucks points. One of the best revenue streams has been aircraft leasing, as it’s clear that the aircraft leasing brings a diversified revenue stream for airlines. According to Young (2015) FlySafair leases airlines to gain additional revenue, and Mango leases some Boeing 737-800. FlySafair in its partnership with First Car Rental is able to earn additional revenue, and the fact that the airline also sells travel insurance.

FlySafair launched itself by differentiating itself as a true low-cost carrier that was able to stimulate the declining passenger market by seeking to attract new passengers. Mahlaka (2014) indicates that when FlySafair launched it came with something that was new in South Africa, such as allowing customers to pay extra for pre-booked preferential seat selection, on-board catering, travel insurance, extra-space seats and checked-in luggage (fares include carry-on luggage only). The service provision that FlySafair was offering was new in South Africa, even though internationally it’s a norm amongst LCCs. Maqutu (2015c) 40 percent of FlySafair passengers did not check in baggage, which means that their business model where passengers pay for baggage was well researched and that there was a market for it, a pioneer in South Africa. This means that a person travelling on business without the need for luggage will not be charged for luggage that they do not need. The airline charges R150 per checked in luggage if it’s done online and R250 if the luggage is not online checked in, this makes the customers to actively use the online website of FlySafair.

The rise and fall of Skywise

Skywise Airline is a South Africa start-up headed by 1Time founders Rodney James, Glenn Orsmonds, Michael Kaminski, and Johan Bortslap. Maqutu (2014) noted that Pak Africa, has acquired the brand of bankrupt low cost airline 1Time and has purchased the air service license of yet to be launched Skywise. The intention was to gain around 15 percent of the
market share. “ 80 percent of the airline is owned by South Africans which includes the Mandela Family and the co-CEO Irfan Pardesi, while 20 percent is owned by Pak Africa CEO Tabassum Qadir. The company is co-chaired by Faizel Motlekar and J. Malik. Johan Borstlap, is the other co-CEO. Wikiped (2015). Skywise was bought by aviation investment company Pak Africa from shareholders that were once shareholders of the now defunct 1Time. Pak Africa has been buying into aviation by firstly buying the JSE listing and the brand of low-cost airline 1Time and in addition, it was bought a Skywise. According to Smith (2015b) Pak Africa acquired a 62 percent stake of Global Airways that operates the scheduled and charter flights. Traveller24 (2015) noted that after Pak Africa Aviation acquired Skywise’s license in October 2014, Yusuf Salonjee joined the team as Pak Africa as CEO and Wayne Duvenhage (former head of Avis South Africa) joined as Commercial Director.

Pak Africa bought the Skywise stake after the former 1Time owners did not eventually launch flights because of lacking a funding partner. Global Airways changed its name to Pak Africa Aviation, with AU-Trading being the sole shareholder in Pak Africa Aviation. Pak Africa is a Middle East investment firm that investments in aviation. According to Maqutu (2014b) noted that the MD of Pak Africa Tabassum Qadir noted that the Skywise management will remain the same, the only change was the change of ownership. The launch date, 11 February 2015, was the 25th anniversary of the release of Nelson Mandela after serving 27 years in jail on Robben Island. Nelson Mandela was to ascend to become the first democratically elected President of the Republic of South Africa. President Jacob Zuma was elected the President of South Africa in 2009, after the ANC won the national elections, has given his State of the Nation Address (SONA) on the 11th of February. According to Wikipedia (2015) on 11 February Skywise launched its maiden flight carrying scores of children from Kgamane High School, and Thembekile Mandela Foundation.

According to Weaving (2015b) notes that after the demise of 1Time, SAA, Mango and kulula.com had held the aviation market for ransom and are now being given a run for their money by upstart airlines such as FlySafair and Skywise that came with fares around R499 between Cape Town and Johannesburg. According to Maqutu (2015b) the market conditions when Skywise launched were characterised by dampened aviation demand, and what noted that air tickets prices that have increased by 20 percent over the past three years. The aim of Skywise was to bring competition on the Johannesburg-Cape Town route by offering a value for money product to customers. When Skywise launched its flights, it chose to fly between OR Tambo International Airport and Cape Town International Airport. In as much as the Golden Triangle is Johannesburg-Cape Town-Durban, the majority of flights occur between Johannesburg and Cape Town. According to Maqutu (2013), Mango noted that it had a 51 percent market share of flights between Durban and Cape Town. According to Airline Network News and Analysis (2015) the Johannesburg to Cape Town route is extensively competed, with flights offered by SAA (126 times weekly), Comair (122), Mango Airline (43) and FlySafair (26), Skywise will operate twice-daily flights using its 737-300s.

The management of Skywise if they wanted to be a true low cost carrier, they should have been using secondary airports in true LCC model. But they chose to fly between OR Tambo International Airport and Cape Town International Airport. This is not a desirable strategy, from a researchers perspective, since they should have increased their service reaching by also flying from the Lanseria International Airport because Comair (Comair/British Airways and kulula.com) started flying under an exclusive agreement from Lanseria, and this was in line with traditional LCC model to make use of a secondary airport with lower charges. The management of Skywise should have approached the City of Tshwane (CoT), which is the seat of government and the headquarters of most government departments to launch flights from Wonderboom Airport. From a researcher’s perspective, Wonderboom National Airport should have been a second Gauteng based airport that Skywise should have launched flights as there is less competition from the Wonderboom National Airport. According to
Slabbert (2015d) Skywise operates eight flights between Cape Town and Johannesburg, and it is planning to add two more Boeing 737 plans and try new routes before the end of the year.

The first sign of trouble at Skywise was that the flights were suspended on 13 October 2015, for a payment dispute with ACSA for unpaid service fees. Borralho & Reinstein (2015) noted that Skywise was suspended in October for unpaid bills to ACSA and ATNS. The immediate aftermath was that the airline decided on a reduction in the flight schedule. On the 02 November 2015, Skywise was grounded indefinitely by the ACSA due to outstanding service fees. “In a desperate move the airline has written an open letter to the State President, saying “with R 4 million in arrears with ACSA and R4 million with ATNS, the airline is already on Fly as You Pay” according to Brophy (2015). Apparently ACSA was given a notice at 5pm dated 2nd December 2015 to shut down with immediate effect. Fin24 (2015a) notes that Tabassum Qadir, Skywise’s co-chairperson indicated that there are many negative people that doubted if the airline would last more than eight months, and the airline has carried up to 250 000 passengers in the past eight months. However, as reality would have it, Skywise would be grounded not because of negative people, but because of failing for paying its creditors.

The second sign of trouble at Skywise was that on 10 November 2015, an aircraft supplier Star Alliance withdrew an aircraft it leased due to non-payment. Young (2015) noted that after the initial grounding in October, Skywise started operating again but the unpaid bills from the company from which they were leasing the aircraft became too high for the lessor to bear and the Boeing 737-500 was recalled. According to Slabbert (2015b) noted that the ACSA website indicated that there was only one flight S8123 from Johannesburg to Cape Town for 22:00. According to Weaving (2015a) the third sign of trouble was when the CEO, 10 November resigned just after getting hired on 11 August. Skywise on 11 August 2015 appointed a new co-CEO, who was Mr. Irfan Pardesi, who resigned on 10 November 2015. The previous co-CEO was Johan Borstlap, who was part of the initial owners of Skywise before Pak Africa brought it, and is former CEO of Sun Air, which is one of the airlines that demised in early 2000s. There is no evidence Irfan Pardesi had any aviation experience, for him to as a CEO of an aviation business. In addition, the fact that the financial affairs of Skywise were performed by an outside consultant is a challenge, and this consultant was according to Slabbert (2015c) dismissed, with the airline indicating that had the airline had grown to be able to have a full time financial director. By the time of the grounding of Skywise on 13 October and 02 December, there was never any indication that a financial director was ever appointed. Pitso and Maqutu (2015) noted that on 3 December 2015, Skywise indicated that on 7 December 2015, it was expecting a cash injection that will allow it to pay some of its creditors.

Smith (2016c) notes that Skywise alleges that it lost the projected R50 million revenue during the months December and January as this is the busiest period of the year. On the 13 October 2015, ACSA and ATNS grounded Skywise for non-payment for services rendered. According to Slabbert (2015d) Skywise blamed the suspension on an administrative glitch. This is not a good enough reason, and did little to build customer confidence. Slabbert (2015d) noted that Skywise put up the following message on the Facebook page. According to Slabbert (2015c) ACSA has had engagement with Skywise on the payment of debt to ACSA. This culminated in the agreement of 16 September 2015, which Skywise failed to honour its payments leading to a final letter of demand sent on 09 October 2015. The negative publicity was basically reputational damage for Skywise leading to customers calling the airline to cancel their booking because of lack of trust. The 02 December 2015, ACSA and ATNS, suspended Skywise for outstanding debt which amounts to R4 million for ACSA and R4 million for ATNS.
Business Day (2015b) notes that Skywise asked for a 48 hours extension after the letter of final demand sent on 13 October 2015. Skywise according to Business Day (2015a) on 01 December 2015, the management of Skywise were informed that at 5pm to cease operations with immediate effect. This information was not communicated by Skywise to its customers, so that customers do not continue making booking. In addition, ACSA and ATNS never indicated to the public their intention to cease the operations of Skywise on 02 December, which is a failure to protect the public and ethically unsound. According to Fin24 (2015a:1) “Skywise bemoaned what it regards as unfair treatment by two of its supplier, the Airports Company of South Africa and Air Traffic and Navigation Services after some of its flights were cancelled due to non-payment. The flights involved were S8 101 from Johannesburg to Cape Town and S8 102 from Cape Town to Johannesburg”. In addition, Fin24 (2015a) noted that Skywise co-chair Javed Malik noted that during the past eight months the airline has missed payment deadlines to ACSA and ATNS.

This was basically an indication of worse things to come from Skywise. On 13 October 2015, Skywise had its flight partially grounded by ACSA for non-payment, in addition to one aircraft leaser not releasing an airline due to non-payment. According to Pitsos and Maqutu (2015) the negative media reports about Skywise affected their business, in that their suppliers that had previously given them 30 days to pay now demanded payment within 72 hours. The suppliers that started demanding the 72 hours payment for services rendered cannot be blamed at they were protecting their interests, as failure to do this would be a reckless business practice. The grounding of the Skywise, on Friday 13 October 2015, which led to the cancellation of flights, Sunday-Flight S8 112, S8 117 and Monday S8 108 and S8 103. Skywise because of the cancelled flights had incurred additional costs because it had to now compensate stranded customers with vouchers and accommodate them on other flights later during the day.
A low-cost carrier usually maintains low overheads, by avoiding to invest in overheads such as off-airport offices. A better strategy could have been ensure that Skywise tickets could be distributed on the other platforms, outside of the website of Skywise and from the airport sales offices. Shoprite which owns Computicket has revolutionarised aviation distribution as it allowed a platform for airlines such as 1Time, kulula.com and Mango to get their tickets sold at their Money Market counters of Shoprite. By opening up on to sell ticket on at the Money Market outlets (using Computicket) at Shoprite, Mango was establishing a new distribution channel for the airline, increasing the potential for customers to easily access the booking platform of Mango. As a popular food retailer, Shoprite was able to market Mango ticket sales unintended as the logo of Mango would be displayed at the Money Market counters, ensuring that Mango has a greater brand awareness which could possibly have led to increased bookings and less perishability when compared to the competing airlines, especially the LCCs. In the event that Computicket which is a subsidiary of the Shoprite Group was not responsive to the approach of Skywise Airline, the airline could have approached the SPAR group. SPAR has a GO PAYZONE which can be a useful distribution network, already being used by InterCape Bus Services. According to the SPAR (2015) Annual Report 2015, there were 1935 SPAR retail outlets spread over all corners of South Africa which means that the group is geographically dispersed. This means that any airline that uses the SPAR GO PAYZONE distribution system can benefit immensely from greater distribution and secondly from reduced perishability of their tourism product offering.

Table 2: Skywise Timeline

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<tr>
<th>Date</th>
<th>Event Description</th>
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<tr>
<td>08 December 2015</td>
<td>Skywise launches bid to raise money from sales of shares “irregularly”</td>
</tr>
<tr>
<td>09 December 2015</td>
<td>Air Services Licensing Council to meet Skywise to discuss flight delays from 13 October</td>
</tr>
<tr>
<td>17 December 2015</td>
<td>Skywise Airline continues to blame ACSA for its financial woes, issues retrenchment letters to staff members</td>
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<tr>
<td>17 December 2015</td>
<td>Skywise sends letters to staff, informing them of retrenchments until a new investor is found</td>
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<tr>
<td>21 December 2015</td>
<td>Skywise begins legal proceedings in the High Court against ACSA</td>
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<td>19 January 2016</td>
<td>Skywise sends a letter to Commissioner of Competition Commission asking for speed on referring the complaint to the Competition Tribunal</td>
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<tr>
<td>25 January 2016</td>
<td>Skywise announces refund process for cash payments</td>
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<tr>
<td>January 2016</td>
<td>Website of <a href="http://www.skywise.co.za">www.skywise.co.za</a> taken offline</td>
</tr>
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Source: Authors Own Collection from secondary data

Airports Company South Africa (2012) accrues revenue from aeronautical income and is derived from regulated charger such as aircraft landing and parking charges and passenger service charges. Airlines pay service charges to ACSA for landing and parking their aircraft at ACSA operated airports in South Africa. ACSA is one of the best run SOEs in South Africa, and it even has contracts to build and manage airports in other countries as far as India. "Another source of non-aeronautical revenue is generated by international operations. Airports Company South Africa formed part of a consortium that took over the expansion and management of Chhatrapati International Airport in Mumbai, India" Airports Company South Africa (2012:4). Skywise decided to open a permanent office at Park Station, which is one of the busiest railway and bus terminals in the Johannesburg CBD, on the 11th November 2015. For an airline that was recently suspended by ACSA over non-payment, they should have rather invested the cash on payments to ACSA.

Recommendations

Companies that want to enter the aviation sector must undertake detailed research to understand the gaps and opportunities in the sector. The pedestrian economic growth, plus the increasing costs of living may decrease disposable income, and negatively impact travel...
demand. The tough market conditions demand that airlines find new markets and ensure depth in existing markets. Marketing should be advanced by airlines so that they inform customers of their service offering so that customers can buy their service offerings. Without an institutionalisation of marketing, the LCCs will continue to suffer from low profitability because of low bookings and high perishability. Steyn and Spencer (2011) noted that tourism is predominantly a White industry. Aviation because is more capital intensive, which means that the barriers of entry are greater than the other sectors of tourism. There are several black owned airlines that have failed such as 1Time, Velvet Sky and Skywise, the major reasons for their failure being the use of older planes, and management with a paucity of aviation experience. Future aviation players must ensure they appoint competent management teams that will run the aviation business successful. The lack of black ownership in aviation is a concern that will be addressed once greater consensus is attained with Black Economic Empowerment in tourism. A few years ago the South African National Taxi Council (SANTACO) indicated that it would launch an airline, SANTACO Airline which was never operated according to Henama (2013a). The lack of finance, skills and expertise may have kept the launch of SANTACO Airline a dream deferred, hence (Henama, 2013a) property investments are a potential cash-cow and an additional revenue stream for the minibus taxi industry. The glamour of aviation will remain attractive but investors must undertake detailed feasibility studies before operating in the aviation industry.

The increase of competition is aviation is an almost certainty as more airlines enter the regional space into South Africa. Matekane (2016) noted that MGC Airline would be rebranded Maluti Sky and operate as Maluti Sky and operate between Johannesburg and Maseru, seeking to limit the monopoly of SAA on this route. In addition, South Africa airlines must seek new routes in African destinations especially around the Southern African Development Community (SADC). Already the Fly Blue Crane has started to operate between Cape Town and Windhoek.

The South Africa Rand (ZAR) is one of the most volatile currencies in the world, and the loss of value of the Rand has made it impossible for airlines to benefit from the decrease in the price of oil. This is related to the fact that crude oil is bought in US Dollars (USD), and the ZAR has depreciated against major currencies. LCCs must increasingly look at fuel hedging to protect future fuel purchases. "Airlines in common with other industries operators hedge to protect fuel costs. Hedging broadly means locking in the cost of future fuel purchases, which protects against sudden increases from rising fuel prices, but it also prevents savings from decreasing fuel prices" (Morrell and Swan, 2006): 713). Slabbert (2015a) noted that airlines hedge fuel purchases, with SAA hedging 40 percent of fuel purchases and Comair hedges 30 percent of fuel purchases.

As competition increase amongst aviation players, excellent customer relationship must become a focus instead of using price cutting strategies. Price cutting robs the airlines of valuable profitability, in an industry will low profit margins that is challenged by the pedestrian economic growth and low domestic demand. Actually customers are willing to pay more for good service. According to Hudson and Hudson (2013) service quality has been increasingly identified as a key factor in differentiating service products and building a competitive advantage in tourism. “It is recommended that South African airlines make a special effort to build relationships with their existing customers, rather than to continually try to acquire new customers. Before attempting to build relationship with customers, airlines should continuously offer quality service to increase customer satisfaction. Airlines should also have service recovery strategies in place and should act immediately in the event of a service failure to ensure that customers are not disappointed for a second time, thereby encouraging and building of relationships” (Mostert and De Meyer, 2010: 37).

Saayman and Saayman (2010) noted that majority of regional tourist coming from Lesotho, Botswana, Swaziland, Mozambique and Zimbabwe enter for the sole purpose of shopping at
border towns and/or visiting family and friends. The majority of the regional tourists travel by road, but increasingly they are using air travel. Beitbridge as the busiest land based Port-of-Entry has an established abysmal service levels and limits the transient nature of regional tourism. The growth of aviation can be supported by the conversion of the status of some airports into international airports, especially in Gauteng. One airport that has the potential is the Wonderboom National Airport on the outskirts of Pretoria, which is the administrative capital city of South Africa. Wiese, De Swardt and Letlhaka (2004) noted that Wonderboom Airport is the obvious choice to be the third international airport in Gauteng, after OR Tambo and Lanseria. Carstens (2014) noted that OR Tambo International Airport and Lanseria International Airport (LIA) are competing for customers, noting that the airports have different characteristics. OR Tambo International Airport has access to a rapid trail network provided by Gauteng, whereas LIA has no Gautrain link, meaning it's a less attractive airport for departure than ORT. The potential extension of the Gautrain link in the second phase of the Gautrain project would lead to more traffic going to Lanseri International Airport.

Marketing is one of the biggest weaknesses of the airlines as they conduct elitist marketing that does not filter to the majority of the population. This prevents the aviation industry from accessing important the Black market segments that remains untapped. According to Rogerson (2015a) noted that the almost exclusive white domestic leisure market has been transformed by the rise of the black middle class. The Black middle class because of the history of apartheid, which regarded Blacks as temporary urban dwellers, has meant that Blacks have maintained financial and social relationship with the rural hinterlands.

Rogerson (2015a) further noted that the Black tourism developed a significant Visiting Friends and Relatives (VFR) market around the urban and rural nodes, regarding the rural home as the 'second home'. VFR is regarded as the (Rogerson, 2015b) largest proportion of domestic tourism. According to Rogerson (2015b) in 2012 the volume of domestic VFR was estimated at 18.4 million trips, which represents the 72 percent of all domestic tourist trips. Rogerson (2015b) further noted that VFR tourism is dominated by the Black population with reference to growth and reinforcement of the migrant labour centres, between the urban areas as places of work, and the rural areas as secondary homes, as residence of retirement.

The migration patterns of VFR have not been exploited by the airlines and this has led to low levels of mode switching to the fast transportation that aviation provides. In addition, George (2014) notes that tourism industry in South Africa has high levels of seasonality, which peaks around the school holidays around March/April, June, September and December. The Department of Transport (2015) acknowledges that South African airports experience high seasonal variances to coincide with the domestic holidays, in addition, many of the smaller airports in South Africa owned by the provincial and municipalities are not financially self-sufficient. Public Private Partnership (PPP), Joint Ventures (JV) and partial privatisation can be pursued so that the smaller airports can be operational. Domestic tourism (Department of Tourism, 2015) is imperative for the geographical redistribution of incomes. The paucity of operational airports therefore has a negative impact on the geographical dispersion of tourism expenditure, limiting the developmental potential of the tourism industry. The tourism industry is developed to improve the standard of living of citizens and their Quality-of-Life (QoL).

According to Forsyth (2006) it makes good economic sense for a region to spend money to attract LCCs to use their airports by subsidising airport charges or by giving other forms of subsidy. This would allow the airport that has a resident LCC to become a growth point for the destination economy. The Cape Karoo town of Oudtshoorn (Noseweek, 2014) accrues benefits from a commercial pilot training school that trains Chinese pilots.
Waiving of airport fees was the incentive the Oudtshoorn Municipality gave to the commercial pilot training school. It has the potential to stimulate retail space rental at the airport, which could bring in revenue for the airport. In addition it is can allow the airport to build capacity to be able to attract a resident LCC such as Cemair and Fly Blue Crane, which make use of smaller planes. Lubbe (2000) noted that technology has changes tourism industry and technology is now indispensable in lowering the cost of business processes, as well as improving customer service, human resources and financial management. Customers are increasingly using their mobile phones, and airlines must respond to the changing communications channels used by the customers.

In order for the tourism industry to achieve shared growth, it needs to have a national tourism policy that is cross cutting and acknowledges the various departments that have an impact on the tourism industry such as the Department of Transport that is responsible for aviation. “The tourism sector must engage on a tourism red tape initiative (TRTI). The aim of the TRTI is to identify bottlenecks that impede on the growth of tourism as a bottom-up approach from each municipality to province, towards a national TRTI strategy” (Henama, 2016:3). The Minister of Transport, (Peters, 2015:2 ) noted that “there is indeed a need for the Department of Transport to work closely with the Department of Tourism and entities such as SA Tourism and Brand SA. Although it could be argued that tourism acts as a catalyst for air transport rather than vice versa, air transport and tourism have an interdependent relationship. However, despite this interdependence and the important multiplier effects of both, many countries have separate sectoral policies on air transport and tourism. This results in fundamental and conflicting disconnect and a lost opportunity to maximise the potential of both the economy and society”. It is therefore imperative that the TRTI becomes an addition to the National Tourism Sector Strategy (NTSS) so that the departments that have an impact on tourism are engaged on the red tape. Competition in aviation is guaranteed, and Business Day (2014) noted that the Airports Company of South Africa is concerned that OR Tambo International Airport would lose its position as the main aviation hub to Nairobi, Kenya and Addis Ababa in Ethiopia.

South Africa must play its leadership role in Africa by leading the establishment of the Single African Air Transport Market by 2017, by ensuring this become a reality instead of being an articulated intention. The establishment of the Single African Air Transport Market (Peters, 2015) is done by the African countries to honour the Yamoussoukro Declaration for the liberalisation of skies. The liberalisation of skies will benefit citizens and tourist, as liberalisation will increase flight frequencies, competition, choice and lower prices. In addition it will increase the growth rate of African countries and allow greater inter-African connectivity which is a stumbling block for African growth.

According to Steyn (2014) Avic, a Chinese state owned aerospace and defence company has been buying flight schools with a majority shareholding of 70 percent to train pilots almost exclusively for China. This is a red flag that the Department of Transport and Department of Tourism must investigate, as pilots possess scarce skill. This however presents immense opportunities for flight schools to use financially unsustainable airports and use them for flight schools to feed the huge global demand and paucity of pilots.

**Conclusion**

Aviation like most other economic sectors is challenged by high concentration levels, with its accompanying effect, market abuse by monopoly companies. Aviation is not a luxury good and this misconception has been shattered by the emergence of LCCs that have led to mode switching towards aviation. Increased aviation impacts positively on the economy, and has a social benefit, connecting people in an increasing connected world. This means that using LCCs can decrease the travel costs of a company, especially small, and medium
enterprises (SME). The future of aviation in South Africa depends on the conduct of
government, because government is a referee (regulator) and a player (operating SAA) in
aviation. Government can either, improve the business environment for aviation growth,
which would increase personal and business mobility, and have a positive impact on the
economy, or continue in its strategy of being referee and player. The biggest challenge for
aviation in South Africa specifically is the fact that the Department of Transport does not
follow an open-skies policy, thereby limiting aviation competition. The fear of implementing
an open skies policy is based on the national carrier losing market share should the
Department of Transport should grant fifth freedoms of the air. According to the International
Civil Aviation Organisation (2016) noted the fifth freedom of the air is the right or privilege, in
respect of scheduled international air services, granted by one State to another State to put
down and to take on, in the territory of the first State, traffic coming from or destined to a
third state. This means that competing airlines could be able to take customers in South
Africa to the detriment of the national carrier. Weber and Dinwoodie (2000) noted that
securing the fifth freedom of the air are generally more difficult to secure because it is
perceived to encroach on the ‘natural rights’ of the countries not to have airline to pick up
customers at the intermediate point.

<table>
<thead>
<tr>
<th>First Freedom of the Air</th>
<th>The right or privilege, in respect of scheduled international air services, granted by one State to another State to fly across its territory without landing.</th>
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</thead>
<tbody>
<tr>
<td>Second Freedom of the Air</td>
<td>The right or privilege, in respect of scheduled international air services, granted by one State to another State or States to land in its territory for non-traffic purposes.</td>
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<tr>
<td>Third Freedom of the Air</td>
<td>The right or privilege, in respect of scheduled international air services, granted by one State to another State to put down, in the territory of the first State, traffic coming home from the homes State of the carrier.</td>
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<tr>
<td>Fourth Freedom of the Air</td>
<td>The right or privilege, in respect of scheduled international air services, granted by one State to another State to take on, in the territory of the first State, traffic coming from or destined to a third State.</td>
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<tr>
<td>Fifth Freedom of the Air</td>
<td>The right or privilege, in respect of scheduled international air services, granted by one State to another State to put down and to take on, in the territory of the first State, traffic coming from or destined to a third state.</td>
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Table 3: Skywise Timeline

Source: International Civil Aviation Organisation

In a report by Oxford Economics (2011) in a report titled Explaining Dubai’s Aviation Model, noted that Dubai has a liberated aviation policy that favour open competition, leading to over 150 airlines out of Dubai. This meant that Dubai benefited from infrastructure and landing fees and parking fees from the increased aviation traffic. In addition, Dubai disproportionally benefits from transit tourism. The Department of Transport must be lobbied by the Tourism Business Council of South Africa (TBCSA) on the benefits of an open-skies policy backed by empirical research results. Privatisation of State Owned Enterprises (SOEs) is not a panacea for inefficiencies, and SAA needs the support of government as shareholder in acquiring the latest planes, and a board that performs its function in line with its fiduciary responsibilities. SAA must ensure it hires the best talent to lead the organisations, and stability in top management is necessary to ensure SAA achieved its mandate. The loss of market share to increased competition would be cross subsidised by the increasing number of tourists, and instead create an economic significance for investment in secondary airports. The rise in fuel prices, airport taxes and the soon to be introduced carbon taxes will test the robustness of the LCC model. In addition the domestic aviation demand has been low, as a result on pedestrian economic growth in South Africa. The dampened aviation demand, which exists side by side with a price war will lead to low profits, and leads to the failing of airlines that are younger will lower pockets that established players. The lesson that can be learn is that a new airline must not seek to start a price war, and avoid one as far as possible, it should instead look at differentiation itself against the competition.
Smith (2014) noted that both Kenyan and Ethiopian Airways were growing at an alarming rate and threatening the dominance of SAA on the continent. According to Market Insight Consultants (2014) the state owned Ethiopian Airways has performed so well that Malawi handed over the management of the national carrier to Ethiopian Airways. Barlow (2016) noted that Ethiopian Airways is the fastest growing, most profitable and largest African airlines because it has hires professionals to run the business, has a clear profit objective and has a strong board chaired by the Deputy State President of Ethiopia. The dominance of Ethiopian Airways in Africa is not my mistake as it developed (Barlow, 2016) a multi-hub system, allowing it to have the best connectivity, more passengers and to dominate freight and cargo. The main hub is in Addis Ababa, the second hub is in Togo, West Africa and the third is in Malawi, in Southern Africa according to Market Insight Consultants (2014). The opening of the multiple hubs has created greater choice for customers, value for money and a compelling value proposition. Intra-African connectivity has been one of the main challenges of air travel in the continent, usually forcing customers to fly to certain destinations via Europe. The growth of aviation competition on the continent has meant that citizens, business and tourism have all been beneficiaries of the better connectivity, lower prices and greater choice. In Africa with its poor road, ports and railway infrastructure that constrain efficient transportation, aviation can unlock economic growth by providing a reliable transport system. Ethiopian Airways remains a model on how a state owned airline can operate on business principles, and not just be profitable, be the fastest growing airline with exemplary service excellence. Privatisation is therefore not a panacea for efficiency of state owned enterprises, what is needed is a well experienced management and appropriate governance structures.

SAA will continue to continue to play a key role in the aviation sector in South Africa, especially considering that it has an LCC subsidiary, Mango. Baker (2013b) noted a state owned carrier should also fly on routes that are not financially viable on a stand-alone basis, but have fringe benefits which make it in the interests if the country to fly the routes. SAA can actually make more profit on African routes that are not well services, considering that Africa is not well connected in terms of aviation to the world. In addition, it must ensure it remains competitive in its cargo business. Aviation competition is good for the customers at it reduces the prices, and leads to the serving of underserviced routes. According to Weaving (2015b) as a result of aviation competition, Travelstart indicated that 14 local routes were cheaper in 2015, when compared to 2014, and that bookings had also increased by 38 percent. This indicates that the tourism industry remains robust, but means that airlines must look beyond the aviation golden triangle, to routes that can produce revenue to cross subsidise the losses incurred on the aviation golden triangle. The Air Services Licensing Act No.115 of 1990 prescribes that the air service applicant must demonstrate that 75% of the voting rights must be held by South Africans. These regulations must be changed as they limit foreign direct investment (FDI) in aviation, thereby limiting competition and lower prices. South Africa would benefit economically, socially and tourism wise with the reduction of 75% ownership, as more aviation players will enter the market and stimulate the development of secondary airports in smaller urban sites and rural hinterlands.

A lesson that should be learnt by the existing airlines and future entrants is that airlines do not do much marketing, especially for the huge untapped market of people that they are yet to travel. Marketing can stimulate demand and increase the load factor for the airlines, increasing their profitability. The established and dominant players such as SAA can weather the storm, whilst Comair has a strong enough balance sheet to manage the temporary impacts of the instance competition. However, in this intense competition, there is an absolute silence on using service excellence as a means of attracting customers and retaining them. The costs savings that can be achieved are related to using the newest generation of planes such as Boeing 737-800s, which a company must buy outright instead of the profit sharing strategy of leasing. Over the past decade, the increase in input costs such as maintenance, aircraft parts and fuel have all increased as they are bought in foreign
currency, whilst South Africa is experiencing a rand crisis. The greatest lesson is that an airline must have a competent and experienced management and use the newest generation of aircraft to achieve a costs savings to make the airline more robust and sustainable and open its routes since competition is always healthy. South Africa’s tourism success depends on having exceptional customer service on land based border posts so that the country remains attractive to regional tourists. With reference to international inbound market, South Africa is a long-haul destination and a liberalised aviation will bring in more tourism for an economy that is failing to grow by more than 1 percent. Tourism is now firmly established as the “new gold” and it’s imperative that aviation plays a greater role in ensuring tourism growth that is an economic driver for the economy.

References


