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The demise of 1Time Airline and the reaction of various interest groups

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Abstract

Following the first racially inclusive democratic elections in 1994, the government efforts to eliminate poverty have been frustrated by the continued shedding of jobs from the formal economy. The tourism industry is one industry that has grown in leaps and bound since the watershed moment in 1994. The tourism industry has developed to become a priority sector in every government policy related to economic growth and sector strategies since 1994. The fact that the tourism industry is labour intensive, employs a multiplicity of skills, allows the entry of locally owned small and medium enterprises and the tourism industry is an export product that earns foreign exchange *par excellent.*

The dramatic rise of tourism as an economic sector has been also associated with the aviation as a dominant transportation sector. The pioneering LCC in South Africa, kulula.com increased aviation traffic, lower fares and increased completion, beneficial to business and society. 1Time was the second airline, a LCC to file for liquidation in 2012 after Velvet Sky, and this raised questions about the sustainability of the LCC model for airlines. The grounding of planes by 1Time and the application for liquidation were the last option for 1Time as business rescue was initiated due to high debt levels and the failure to conclude the sale of the airline in the eleventh hour. The case study presents the demise of 1Time, challenges facing aviation in general and the LCC aviation model specifically and lessons for potential aviation entrants. This article is based on based on a descriptive literature study (desk research) of the aviation industry in South Africa, to add to the paucity of academic literature on the demise of low cost carriers. This article seeks to trace, identify the causes of low cost carrier failure, and suggest suggestions on how low cost carriers can be better managed and how the business environment for low cost carriers can be improved. The article would create a body of knowledge that could be used for analysis in planning empirical research.

Keywords: Tourism, aviation, low cost carrier, mobility, globalisation, development.

Introduction

The African National Congress (ANC) government elected in 1994 elections adopted the Reconstruction and Development Plan (RDP) as a programme of action to arrest poverty, unemployment and inequality. Tourism was later identified as an engine for growth for the economy as the traditional sectors such as mining and agriculture had a declining share in employment and contribution to the gross domestic product (GDP). Tourism is labour-intensive, therefore any growth in tourism is associated with growth in employment. The emergence of low cost carriers (LCCs) has been able to open up new airline markets, use cheaper secondary airports that offer lower costs that are transferred to lower fares for customers. Increased frequencies have had a social benefit to society, in addition to the positive economic benefits. Naude & Saayman (2004) noted that the high transport costs are one of the barriers to the growth of tourism in Africa. Because of limited liberalisation of aviation in Africa, in real terms, aviation prices remain high. Fourie (2011) notes that price competitiveness and transport costs are significant determinants of tourism to South Africa. LCCs have encouraged transport mode switching from other forms of transport through lower aviation fares.

Troubles with 1Time

The rising cost of jet fuel, had now exceeding staffing as the major cost in airlines, had put considerable pressure on airlines. Aviation is essentially a function of the tourism industry, a decline in tourism would also depress aviation demand. According to Magwaza & Speckman (2012) the first sign of trouble with 1Time was that it reported a loss of R 43.5 million in 2012 compared with R33.9 million the previous year in 2011. The airline has been trying to institute business rescue as a result of failed attempts to find a resolution to the debt of around R320 million that 1Time had to repay. From August 2012, the company was forced to seek protection from creditors after six months of negotiating with its creditors failed. The airline had made a loss of R43.5 million as the costs of doing business had gone up, and the price of jet fuel was the biggest influence on the loss. The business rescue process that 1Time embarked on under new CEO Blacky Komani was to appease the creditors. It later emerged according to Pauw & Dommisse (2012) that whilst under business rescued, the airline was presented with a plan to turn the six month loss of R18 million into a six month profit of R40 million by Christo Ebersöhn appointed by the union, Solidarity. This plan was not considered by 1Time as it presented restructuring of certain functions and pointed to mistakes by the present and past management of 1Time.

According to Smith (2012a:1) ''low-cost carrier 1Time and Jetworx, an aviation maintenance and service unit, which were both subsidiaries of 1Time Holdings, had more than R368million in short-term debt and applied for business rescue in August''. According to Pauw & Dommisse (2012) Ebersön noted that 1Time poured money into Jetworx to keep it afloat, with bloated human resources, comprising of 422 maintenance staff for seven aircraft whilst needing around 35 maintenance staff that would have reduced the salary bill. The salary bill which represents the major cost for many companies needs to be managed as it can become a risk for business sustainability such as in the case of 1Time. According to Planting (2012) Jetworx failed to attract third party business and declared an attributed loss of R22,6 million in 2010. In addition, Fin24 (2012c) notes that staff inefficiencies were not limited to Jetworx, as the pilots employed by 1Time only flew 50 hours a month, when compared to SAA and Comair pilots that flew up to 100 hours a month. The article further suggests that 1Time could have saved in the region of R11 million on pilots over a six month period. The demise of 1Time can be associated, with the fact that it used a fleet of McDonnell Douglas aircraft that are more expensive to operate and have a higher fuel consumption rate than do newer generation aircraft.

According to Planting (2012) the business model used by 1Time saw it lease the oldest, cheapest fleet of aircraft possible, but these aircraft have a high maintenance and are less fuel efficient. In addition, to the inefficiencies of the aircraft the seat capacity that the twin-engine McDonnell Douglas MD-80 provided was less than that provided by newer planes such as the Boeing 737-800 flown by 1Time competitors.

Therefore, from a competitiveness perspective, the business model it used was the undoing of 1Time reducing the revenue per seat for 1Time when compared to peers.

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Customers

The demise of 1Time left many customers stranded, on a Friday afternoon when it was month end with much airline capacity had been already booked as demand peaks on Friday for the weekend. This meant that stranded customers had little to no alternatives as airline capacity was already been procured. The 2nd November 2012 was the day that 1Time ended all its flight, just like Velvet Sky on the 22 February 2012, leaving many customers stranded. The customers that were stranded were not only customers in South Africa, as 1Time was also flying to Zanzibar in Tanzania, and the customers stranded outside of South Africa also had to make alternative plans as a great cost. Fin24 (2012a) notes that after the demise of 1Time, a customer was charged R2500 one way from Johannesburg to East London, after the demise of 1Time. The demise of 1Time has actually reinforced the monopoly position of SAA and its subsidiaries to the disadvantage of customers in reduced routes, higher prices, and less competition.

The reaction of customers that have used 1Time was also of shock as social networking sites such as Facebook and tweeter were abuzz with messages of support and pity for the demise of 1Time. According to Smith (2013a) the demise of 1Time led to the removal of about 2 million in seats of capacity from the aviation market. This created perfect conditions for the existing airlines to increase prices due to reduced capacity and make increased profitability until another aviation player entered the market.

Staff

The fate of the more than 500 employees of 1Time airline was bleak as the airline ceased its operations. According to Parker (2012) Comair released a statement on its

Facebook page to 1Time employees to send their curriculum vitae (CV) to published contact details. Other airlines such as Mango, also indicated the desire to extend recruitment to 1Time staff members. The departure in early 2012 of most of the founding members of including 1Time may have destabilized the management, but for the board to appoint Mr. Blacky Komani as CEO was a fatal mistake. According to Tarrant & Vanek (2012) one of the founders, Glenn Orsmond resigned in October 2011 and leading to a rapid succession of resignations in 2012 of CEO Rodney James and Michael Kaminski as executive director. Orsmond, James and Kaminski owned around 10.4% in 1Time with the same figure being traded on the JSE in February 2012.

The demise of 1Time led to the loss of employment for 1Time staff members; in addition, the demise of 1Time had a negative impact on the potential to create jobs in neighbouring Zimbabwe. 1Time had formed a partnership with NU Aero from Zimbabwe to launch an LCC in Zimbabwe, called Fresh Air. According to Business Report (2012) 1Time was to swap its OR Tambo International Airport-Livingstone route on the Zambia side of the Victoria Falls, for the OR Tambo International Airport-Victoria Falls Airport route on the Zimbabwe side.

FreshAir was supposed to take to the skies on the 02 November 2012, the day that 1Time filed for liquidation. This was a blow to the tourism industry of Zambia and Zimbabwe, for Zambia, the loss of airline capacity from South Africa, and for Zimbabwe, the loss of the potential that the new route would have yielded.

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Competing Airlines

The demise of 1Time led to a blame game with Comair CEO, Eric Venter blaming Mango, in addition to the less fuel efficient fleet of aircraft that 1Time was using. However, Comair not only launched new routes just after the demise of 1Time, it also actively recruited the human capital from 1Time.. According to Magubane (2012) Mango intended to launch two routes by 05 December 2012, namely the Johannesburg-Port Elizabeth and Cape Town-Port Elizabeth, which had initially been dominated by 1Time. Kulula.com according to Linden (2013) celebrated its inaugural landing on 02 March 2013 at East London from OR Tambo International Airport.

The route was not serviced by an LCC after the demise of 1Time, and would service the route with 13 flights per week using its 189 seater Boeing 737-800. According to Smith (2013a) the share price of Comair drisen by 81% since the beginning of 2013 whilst BusinessReport (2012) notes that the price of Comair shares rose by 6% on and after the demise of 1Time on the 02 November 2012.

In addition, Hedley (2013) notes that Mango in partnership with AfricaStay, a tour operator filled the vacuum left by the liquidation of 1Time, by serving the Johanneburg-Zanzibar route. This route had been also serviced by 1Time before its demise. The demise of 1Time meant that the tourism industry and the jobs it creates in tourism destinations such as Zanzibar were in jeopardy. Comair also engaged in Africa expansion after the demise of 1Time by re-launching its Johannesburg-Maputo route, after withdrawing from the service in January 202 citing low demand and high taxes according to Jon (2013).

The Banks

Many customers in South Africa use credit cards to purchase airline tickets and the banks in South Africa played a prominent role immediately after 1Time suspended its flights. According to Seggie (2012) Nedbank was the first company to announce that its customers using Nedbank and American Express credit cards could lodge a dispute on their call centre (0860 555 111). The dispute would be categorised as a chargeback, for services paid for by customer and not yet delivered by a merchant. The other three major banks namely Standard Bank, First National Bank (FNB) and Absa made use of social networking sites to communicate with customers about the chargeback dispute process and the necessary documentation such as the reference number of the booking to capture and process the chargeback.

Industry regulatory bodies by the government

The National Consumer Commissions (NCC) is a government entity that is placed under the political leadership of the national Department of Trade and Industry (DTI), to protect consumers in terms of section 85 of the Consumer Protection Act No.68 of 2008. According to the DTI (2013) the NCC can investigate and prohibit unfair marketing and business practices, in addition to other responsibilities and duties. According to Fin24 (2012) the acting head of the NCC, Ebrahim Mohammed is quoted as indicating that the NCC will investigate if 1Time was selling tickets hours before it grounded all its flights, and ceased operation thereafter. According to Smith & Pickworth (2013) he Financial Services

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Board (FSB), under the Directorate of Market Abuse was investigation in a parallel investigation process like the JSE, if there were listing requirement breaches by 1Time.

Johannesburg Stock Exchange

1Time was listed on the Alternative Exchange (AltX) was on the 14 August 2007, until it was transferred to the JSE main board on 05 July 2010 under the Travel and Leisure sector. The listing of 1Time was the second airline listing after the listing of Comair that operates the legacy airline, Comair/British Airways and the LCC pioneer, kulula.com. The first sign of trouble by 1Time with the JSE is when it failed to (Hedley, 2012) publish its financial statements within the required three month period following the end of its interim financial period. The JSE subsequently gave 1Time until the end of October month to publish the financial statements. According to Moneyweb (2012) listed companies must submit their interim reports and provisional reports within three months and that threatened the suspension of the company's securities. Smith & Pickworth (2013) noted that 1Time CEO Blacky Komani had broken news of the liquidation of 1Time on radio without having initially shared the news with shareholders, being in transgression of JSE rules as part of the listing requirements. Blacky Komani should have shared such share price-sensitive information with shareholders. According to Magwaza & Speckman (2012) the JSE was filtered with rumours of the liquidation and stop of 1Time operations at 15h40 whilst the JSE finally halted the trading in 1Time shares at 14h10 after it managed to get hold of the company for confirmation that the rumour was actually true. According to Smith & Pickworth (2013) the result was that 6.2 million 1Time shares changed hands on that day, which was six times, the 15-day moving averages volumes of daily trades in the preceding 12 months. 1Time tried to stay afloat and the rights issue that would have raised new capital for 1Time did not material, as it was envisaged to raise up to R80 million. The demise of 1Time without proper communication to the JSE, presented a reputational risk for the JSE, and it shall certainly be harsh in dealing with 1Time due to transgressing some JSE conditions associated with the listing of 1Time on the JSE.

Conclusions and Recommendations

A managerial lesson from the demise of 1Time is that there is a need to ensure that LCC keep their costs and overhead under permanent scrutiny. The fact that 1Time had a bloated human resources in Jetworx, in addition to the pilots of 1Time flying 50% less hours than the competition airlines was a poor managerial decision. Using less fuel efficient planes menat it spend more on jet fuel that its competitors. The board also failed in acting in the best interest of shareholders by critiquing the strategy and business operations of the CEO and management of 1Time. The board should have appointed an experienced CEO after Mr. Glen Orsmond resigned as CEO, instead of appointing Mr. Blacky Komani, who was non-executive director at 1Time. The demise of 1Time must also be a lesson to BEE groupings that seek to invest in companies as a part of the strategy to deracialise the economy and empower the previously neglected races in South Africa.

According to Mail & Guardian (2006:2) ''sometimes the attitude seems to be that, since BEE is good for South Africa, all BEE deals are good for South Africa. This is fallacy. Some BEE deals have only been good for the shareholders selling *isikorokoro* investments to black shareholders''. The business model that was used by 1Time management of using a fleet of aircraft that was old meant that it had higher operating costs than its competitors. This means that the 1Time management and the board, failed shareholders in performing their fiduciary responsibility. The procurement of a new fleet of aircraft remains the most pressing business need for airlines. The Industrial Development Corporation (IDC), which is funded by the state, must play an active role in the BEE companies that it funds to ensure the investments do not degenerate into wasteful and fruitless expenditure. The liquidation of 1Time also means that the shareholders have lost their investments in the company as the shares are also suspended on the JSE.

As noted by ASGISA, air access is one of the constraints facing the growth of the tourism industry in South Africa (The Presidency, 2006). According to Smith (2013b) the Air Services Act requires that 75% of shareholding for a domestic aviation operating license be held by South Africans. This is a stumbling block, and the opportunities forgone as a result of some draconian legislation. This deters foreign ownership which could improve aviation connectivity, increase competition and reduce prices. There is a need to contain the costs that are associated with landing fees in addition to airport taxes so that they don't make travel costs to South Africa expensive, in comparison to our competitor destination. Tourism destination competitiveness depends on the availability of good infrastructure supported by open skies that will allow airlines to become entrepreneurial in taking advantage of the open skies. According to the World Economic Forum. (2013) the connectivity made between cities and markets produces an important infrastructure asset that facilitates activities that enhance a nation's productivity.

The major challenge in South Africa's aviation policy is the fact that the government is in a conflicted position, as a regulator in addition to being a player, through its ownership of South African Airways and its subsidiaries (South African Express, Mango). The state must reduce its 100% shareholding in SAA, allow for private investors that would demand that SAA operates using business principles. The demise of 1Time has only benefited the current airlines as they have increased prices. However, this environment presents an opportunity for the launch of other low cost carriers. The demise of 1Time, provides a number of lessons for business management that this article seeks to bring to academic gaze.

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