

What strategy for air transport in COI countries ?

*Extinction, irrelevance, synergy, taken over or integration:
à la carte menu ?*

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Outline of presentation

- Underlying trends
- Daunting challenges and questions
- Strategic considerations
- Regional Integration
- The nuts to crack
- The menu card
- Real life examples
- Conclusions
- Fodder for thought

Underlying Trends: stating the obvious

- Region accounts for very small share of global aviation/tourism industry
- Unequal growth of traffic in region
- Share of traffic carried by non-IOC airlines rising
- Penetration of new large entrants & competition from legacy/other airlines
- Mostly old system of BASA: capacity, frequency and fares. Restrictive?
- Capacity and pricing : effect on competition
- Lack of coordinated services in region & low frequency flights
- Varying commitment to cooperation and integration : stages of development

Underlying Trends: loss making machine

- Most airlines in the red
- Economics further weakened by global crisis (demand, currency, fuel, taxes)
- Response to crisis: risks of corporate goals trumping national interests
- Taxes account for high share of fares
- Successful African airlines are an exception
- Many small airlines failing
- Is it a case of too many small airlines poorly serving too many small markets?

Underlying Trends: present tense, future imperfect

- Liberalisation, deregulation and globalisation are irreversible
- Move from crisis to crisis with spell of profitability
- Need government financial support to face crisis
- Lobby Govt to restrict air access and manage competition
- Dynamic and competitive market place
- Airline cooperation and consolidation (across countries) is a reality
- Airlines will become more powerful, bigger & with global footprint

Daunting Challenges: too small to succeed

- Small, weak & uneconomic to compete viably in very tough industry
- Fragmented and thin markets
- Lack of scale, scope, density and depth
- Market reach is limited: excluded from mega alliances
- Undercapitalised
- High cost of operations and financing.
- High fares
- Different levels of development : tourism and air transport

Daunting Challenges: stacking the wrong cards

- Obstacle to regional integration: trade, tourism & investment flows
- High government interference
- Risks of airlines going under one by one or taken over by large carriers or become irrelevant... and their implications
- Rethink business models: global liberalisation, internal liberalisation

Daunting Questions: ignore them at our own perils

- Can each small island afford to have a commercially viable and sustainable carrier that can compete with the international airlines?
- Do these airlines owned by individual states run the risk of becoming simply symbols of nationhood, flag -waving and sovereignty with little commercial relevance?
- Can COI states afford to depend heavily on foreign carriers to connect them with the world and each other? Does ownership and control matter?

Strategic Considerations: from here to where ?

- Disappear or become small and irrelevant
- Only a regional player
- Greater cooperation, coordination, complementarity & synergy
- Strategic partnership (absorbed by large carrier, franchising, feeder)
- Come together/full integration

Strategic Considerations: how to skin the cat?

- What is the path for airlines in IOC to grow and thrive?
- Commercial cooperation, alliance, strategic partnership or integration
- Is 'strengthened' commercial cooperation & coordination enough to survive?
Or are we just postponing the days of reckoning?
- Cooperation: code share & pooled services, special prorates, commercial agreements, capacity coordination, Joint Venture,synergies,complementarity
- Alliance: aircraft purchase, spares pooling, common procurement, common sales and marketing, training, etc
- Strategic partnership: equity participation/management control
- Integration: creation of an integrated entity to be able to compete. Regional groupings

Strategic Considerations: words, deeds & sacred cow

- Rhetoric on need for cooperation in large supply... Not much action
- Need size, scale, scope & density to maintain relevance, to compete and survive
- Should be well aligned and financially robust
- Must work together to come together
- Commercialisation of airlines and political economy considerations
- Politics might protect the industry for now. But those who fail to anticipate a fully globalized future risk extinction or irrelevance
- Government : own, control and regulate? Judge & party

Regional Integration: can heaven wait any longer?

- To survive and face growing challenges : symbiosis transport/development
- To avoid extinction or irrelevance through inaction
- To speed up economic integration and foster faster development in region
- To help integrate more thoroughly in global economy
- To leverage the resources and expertise of the region & increase profitability
- To have stronger buying and marketing power. Stronger brand identity
- To broaden the economic footprint: growth, wealth, jobs and tax revenues
- To develop network and increase benefit to consumer, passenger and shipper
- To build an important infrastructure asset that will generate benefits
- To enhance trade, investment, business and economic cooperation

Regional Integration: hell, purgatory or paradise

- There are around 5 main options (plus some variants)
- Must choose which one is best for the region
- Do we need one integrated solution or two piecemeal ones?
- Which one is more likely to meet commercial/economic objectives and then to have buy in of policy makers?
- To show that the whole is greater than the sum of the parts

The nuts to crack: it's the national pride stupid !

- Issue of sovereignty, nationhood & strategic assets v/s commercial reality
- Nationalistic politics v/s economic forces of globalization: difficult to preserve the status quo in perpetuity
- National to regional ownership/control: completely new mindset,not only among political leaders but also at the level of the airlines and people.
- Can we iron disagreement among airlines of the region & identify best strategy ? Is there a shared vision , a common objective ?
- All Governments, airlines and other key stakeholders should support initiative
- Get rid of petty jealousies/mistrust of each other! Overcome protectionist policies
- The legacy of history. Do multi-national airlines work?

The nuts to crack: are these too hard for the teeth ?

- What are the advantages and pitfalls of a regional airline?
- Ownership: open/closed. Foreign airline/financier. Public/private
- Cabotage rights within the region : internal liberalisation
- Fifth freedom rights
- How to approach and structure the new vehicle?
- How do we lead and manage it?
- How to distribute the perceived benefits from the venture in a ‘politically acceptable’ manner while keeping its commercial rationale?
- Needs credibility. Must be commercially driven

The nuts to crack: devil in the details

- Pooling of traffic rights
- Network planning
- Infrastructure and facilities
- Routes to be flown
- Operations
- IT system & infrastructure
- Administration and Finance
- Sales and distribution
- Human Resources

The menu card: enhanced status quo

Option 1

- Essentially keep the existing framework
- More synergy and complementarity on long and medium haul
- Greater coordination/cooperation on regional routes

The menu card: two stand alone solutions

Option 2

- A common solution for the regional services
- Maintain current framework for medium and long haul by each airline of the region
- Who will provide regional airlinks: consortium of existing airlines, one or more airlines, private and public sector, LCC or not

The menu card: Option 2 plus strategic partner

Option 3

- Similar to Option 2
- Strategic alliance/partnership for medium and long haul services
- Same strategic partner for all national airlines or different
- What strategic partnership: equity, control and management

The menu card: holistic and integrated solution

Option 4

- A new airline to serve both the region and the rest of the world
- Role of government and private sector

The menu card: Option 4 plus strategic partner

Option 5

- As in Option 4
- A strategic partner in addition to regional airlines and interests

Real life examples: too small and it fails ?

- Air Seychelles: new model to cope with liberalisation
- Air Comores: born, die, resurrect and perish again
- Maldives: too small to matter. Still born
- Air Mauritius on Dubai: impossible to compete
- Catovert: nipped in the bud due to lack of traffic rights in region
- Air Ocean Indien: when politics and misguided protectionism win the day

Conclusions: individual agony or ‘communautaire’ welfare

- Part of a large project, irrelevance, be absorbed or face extinction
- Can we afford not to come together? Cost of inaction is high
- Wait for economic collapse for pride to be swallowed and take action
- Is it all about size, scale and density? Evidence –based policies ?
- Need more strategic inputs & thinking before making final decision
- Require imagination, creativity, innovation & out of box solution
- Broader interests of region v/s narrow corporate agenda of each actor
- Role of IOC to play : drive initiative with helicopter view. Have buy-in

Fodder for thought: united we fly, divided we are grounded

- So long as every IOC nation wants to put its flag on the tail of an aircraft, it will be difficult to build a pan IOC airline with the necessary critical mass to compete
- The airlines of the region have no choice. If they stick together, they may survive. However, if they stay separate, they are sure to hang separately
- Everybody wants to go to heaven. However nobody wants to do what it takes to go there. Worse, we do exactly the contrary and we are surprised when we reach the gate of hell
- For how long will politics, pride, petty jealousies and mistrust continue to trump economics, commercial soundness and market realities ? Until the economics of the situation compels us to come together to avoid the gate of hell.
- ‘What we need to do is to merge our airlines (KQ,SAA and ET). There is no way that we are going to survive as small airlines. We are the lambs at the gate. Bringing the three biggest carriers together would create one large strong airline to take the fight back to foreign carriers’

Taitus Naikuni, CEO of Kenya Airways at the AFRAA conference in Nov 2012



Thank You!

