An assessment of key success factors in the South African low cost airline industry

Authors

Davids S. (University of Johannesburg)

Mapinga T. (University of Johannesburg)

Mtimkulu Z. (University of Johannesburg)

Dhliwayo S. (University of Johannesburg)

Contact author

Dhliwayo

Department of Business Management

Johannesburg Business School

University of Johannesburg.

P.O. Box 524, Auckland Park, 2006

Johannesburg. South Africa

Phone: 027 11 559 1698

Abstract

Deregulation of the South African Low Cost Airline lowered entry barriers which resulted in 11 airlines entering the market between 1990 and 2018 but only 6 are still operating. Using a literature and qualitative method, the study found that there are key success factors that actors in the industry have to adhere to enhance their survival. These include having support from a full service parent airline, modern fleet and tapping into the market of those who normally would not fly, among many others. The key success factors seem to have been applied by those that succeeded in the industry.

BACKGROUND

The deregulation of the South African airline industry in 1990, created opportunities for low cost airlines to emerge and compete within the industry (Paelo & Vilikazi 2016). According to the South African Low Cost Airline Industry study carried out by Mhlanga (2017) deregulation as “an act or process of eliminating regulations and restrictions from a given industry, or the reduction or removal of centralised power in a particular industry usually enacted to create more competition within the industry”. Deregulation of the South African Low Cost Airline lowered entry barriers which resulted in 11 airlines entering the market between 1990 and 2017 (Paelo & Vilikazi 2017). The case still remains the same in 2019. One of the arguments for deregulation had been that there were few major economies of scale in air transport; hence large and small airlines could coexist (Grant 2010. However, there was an expectation that the low-cost airline industry would increase in numbers, as it was perceived to be a flourishing industry. Although there were new market entrants acted upon the opportunity, industry growth was unfortunately never the case, since those new low-cost airlines that have entered the industry have seldom survived. Table 1 below shows the history of airlines in the domestic South African market, on a timeline and further illustrates airlines which are full service and low cost. The table shows that only 5 out of the 11 lower cost air lines are still operating. Nearly all of these are affiliates or subsidiaries of the existing full service airlines. This implies that stand alone low cost airlines can hardly succeed in this industry.

Table 1: The history of airlines in the South African domestic market after deregulation in 1990 to 2019

No.	Airlines	Start	End	Full Service Airlines / Low Cost Airline
1	SA Airlink	March 1992	Still operating	Low Cost Airline
2	Bop Air	July 1979	September 1992	Full Service Airlines
3	Flite star	October 1991	April 1994	Full Service Airlines
4	SA Express (SAX)	April 1994	May 2018	Low Cost Airline

5	Sun Air	November 1994	August 1999	Full Service Airlines
6	Phoenix Airways	December 1994	August 1995	Low Cost Airline
7	Atlantic Airways	August 1995	October 1995	Full Service Airlines
8	Nationwide Airways	December 1995	April 2008	Full Service Airlines
9	Kulula.com	August 2001	Still operating	Low Cost Airline
10	1Time	February 2004	November 2012	Low Cost Airline
11	Comair	March 2006	Still operating	Low Cost Airline
12	Mango	October 2006	Still operating	Low Cost Airline
13	Velvet Sky	March 2011	February 2012	Low Cost Airline
14	Fly Go Air`	February 2012	Still operating	Full Service Airlines
15	Flysafair	October 2014	Still operation	Low Cost Airline
16	Skywise	March 2015	December 2015	Low Cost Airline
17	Fly Blue Crane	September 2015	February 2017	Low Cost Airline
			Total Low Cost	**11**
			Total Full Cost	**06**

Source: Adapted from Mhlanga (2017:6)

According to the study conducted by Mhlanga (2017) literature indicates that in light of the harsh business environment 17 airlines have entered the industry between 1990 and 2017, of which only six are still in operation.

There should be key success factors applied by those that succeeded. The study therefore aims to analyse the key success factors in the industry. This will be done through a literature review and comparing then literature sources and opinions from the experts currently working in the industry. In the South African “Low Cost Airline Industry” (LCAI), few market entrants survive sustainably over long periods of time, while few manage to resiliently maintain market share. This phenomenon can be attributed to an array of various key success factors which include: (1) Service Factor (2) Turnaround Time (3) Homogenous Fleet (4) Point to Point travel hub (5) Seat Density (6) Choice of Airport and (7) Distribution System. Effective application of these factors should bring success to the low-cost airlines.

RESEARCH METHODOLOGY

A literature review was carried out first and this was used as the basis for the questions respondents were asked. A qualitative research approach was used for this study. Researchers made use of convenient and purposeful approaches when searching for experts who had specialised industry knowledge and experiences. Bunce and Johnson (2005), suggest that saturation occurs within the first 12 interviews, and Creswell (2009) argues that when using qualitative design methods, it is essential to target participants that have the relevant experience and expected views. Based on these arguments the researchers had identified 12 managers which are previous and current employees of various low-cost airlines. Unfortunately, only 3 could avail themselves and it is from these that expertise opinions were finally sort through face to face interviews. The interviews were recorded. The limited sources is a weakness of the study. Three managers were in the end interviewed, each of them had, 19, 16 and 7 years in the low cost airline industry respectively. The one with 19 years' experience had spent 10 years in the current company while the other 2 had each 3 years in the current company.

LITERATURE REVIEW

The literature review is presented next. It briefly discusses the low cost (LCLS) leadership strategy and thereafter the key success factors (KSF). The findings of the qualitative study are presented immediately after each KSF review.

Low cost leadership

The low-cost leadership strategy strives to be an industry's overall low-cost provider and is appropriate in markets with many price-sensitive buyers (Gamble, Peteraf & Thomson 2017). They assert that achieving a low-cost position and maintaining it brings along above average returns in the industry even if strong competition exists. According to Porter (1979) low cost leadership provides the company with competitive advantages as lower costs imply higher returns. An organisation may select between various options when translating a low-cost advantage over rivals to attract high profit margins. One example can be to use the lower-cost edge to under-price competitors and attract price-sensitive buyers in great enough numbers to increase total profits. An alternative option is to maintain the present price, be content with the present

market share, and use the lower-cost edge to earn a higher total profit margin on each unit sold (Gamble *et al*., 2017).
The next section discusses the KSFs as well as the findings from the study.

Key success factors

Key success factors (KSFs) have direct and possible uses for low cost airlines whether domestic or foreign. When assessing low cost airline industry, key success factors are seen as the first tools for analysing the character of the industry in which low cost airlines compete in KSFs are components of competitive strength that all low-cost airlines must practice in order to enhance chances of success in the industry (McCabe, 2006). When low cost airlines implement their strategy, they must ensure that the KSFs are attained to survive in the industry.

A study conducted by Shah (2007) reveals that CEOs of airlines cannot reach a consensus on the KSFs of low cost airlines. The CEO of Southwest Airline believes that KSFs are team spirit, marketing and point-to-point travel versus hub-and-spoke travel meanwhile the CEO to JetBlue suggest that KSFs is having a homogenous fleet, employee attitude, and energy. The CEO of Kenya Airways concurs to some degree with the views of JetBlue stating that the KSFs for low cost airlines are to have a homogenous fleet, systems and human resources. The CEO further recommends that a low-cost airline have to continuously monitor their KSFs to see if there are changes to them.
Paperap (2017) states that the main objective of low cost airlines is to attain the needs of customers of travelling safe in the air from one point to the point at a relatively low price. The study adopts KSFs proposed by, Marques (2015) Paperap, (2017), Sørensen, (2005) & UKEssays, (2016) which is as follows:
Service Factors; Turnaround Times; Homogenous Fleet; Point-to-Point Travel versus Hub-and-Spoke Travel; High Seat Density; Choice of Airport; and Distribution System.

Service factor

Low cost airlines in South Africa primarily compete on providing minimum customer service at lower prices (Marques, 2015). This occurrence happens both pre-flight and

in-flight. In pre-flight for example, the option to issue electronic tickets via email on smartphones. Seats are not pre-assigned, and this facilitates the easy of passenger movement at the gate at boarding time allowing a passenger to selecting the seat of their choice. Mack (2013) points out that customer demands in low cost airlines are dealt in a way that is symbiotic to airline and customers. For any delays or cancellations, customers should not expect free meals and/or accommodation to be provided. Sørensen (2005) explains that passengers are required to read and understand the terms and conditions before purchasing a ticket. (Raynor, 2011). No complimentary refreshments are provided in-flight, but the passenger has to purchase at relatively excessive prices. Sørensen (2005) believes that this becomes a potential revenue stream as opposed to increasing costs. Furthermore, on average low-cost airline have fewer flight attendants compared to full service airlines (Roseingrave, 2000). In conclusion, Casadeus-Masanell & Ricart (2009) claim by utilising a solitary class and providing the same treatment to passengers, low cost airlines are able to accomplish economies of scale.

The various distribution channels give the buyer options that did not exist in the past. Buyers have options, and normally go for a cheap option or the most convenient therefore the choices are much greater for a buyer. The buyer is not brand loyal but rather looks for an option that is best suited. In terms of partnering a buyer is normally not affiliated to a single partner, but could have multiple option, which takes away the exclusivity or the loyalty. Technology has enabled better customer service, where you can check in from home, and have your boarding pass electronically or in a print format.

Findings

Customer experience is key, and important for referral basis, customers are always expecting more Customer service was prevalently raised during the discussion with the respondents as an area of uttermost concern. One respondent indicated that consumers are generally willing to pay more for quality of service.

All respondents pointed out that customer care is critical in keeping the low cost airline companies in business.

Turnaround times

A low turnaround time is what South African low-cost airline generally compete on to achieve flight schedules of 30 minutes. This refers to the time taken through the aircraft to disembarked passengers and luggage to optimise the use aircrafts from dawn to dusk (D'Alfonso, Malighetti, & edondi, 2010). Since seats are not pre-assigned, this facilitates the ease of passenger movement at the boarding gate during boarding time, by selecting the seat of the choice (Paperap, 2017). Raynor (2011) explains that no free food is served on-board, this also assist in the cleaning process between flights as the cabin crew does the quick housekeeping during halts and major cleaning is done overnight (Sørensen, 2005).

Finding

The fast turnaround time results in high asset utilisation for low cost airlines, which is the primary cost advantages in comparison to full service airlines which are best suited "to make more round trips between a given cities pair with lengthier turnaround times (UK Essays, 2015). Frequent turnaround times are important, as the less the time spent at the airport will result in less overhead costs. The more daily flights available the better, because this will bring income. Optimisation on staff and reduction in staff headcount helps to save costs. By using fuel efficient aircraft, such as the newer types, more passengers can be carried with lower fuel expenses. Being price sensitive to consumers is advisable, try to charge less and appeal to larger audiences. Airports are where most of the airliners expenses are incurred, this can erode massively into profits. The respondents stated that the Low-Cost Airline Key Success Factors rely on the extent to which they can maintain business efficiencies. They all independently concur that with the industry offering low profits, operation costs should be kept at a bare minimum. Staff compliment should be kept to a minimal and the aircrafts should spend as much time in the air as possible and little time as possible in the airport. Using cheaper airports such as Lanseria, has become commonly favourable.

Homogenous fleet

Malighetti *et al*., (2010) suggests that South African low-cost airlines should have a common fleet with a single type of aircraft. Frequently low-cost airlines opt for the

Boeing 737 model as the aircraft of choice. Sørensen (2005) explains that Boeing has been steadily upgrading their 737 aircraft from 737-200 to the latest 737-900, but the aim has been to maintain the single type of aircraft which is essential to reducing operating cost of pilot training and maintenance if the airline maintains a single-aircraft fleet. In fact, Diaconu, (2012) mentions that having a new Generation aircraft will allow the low-cost airlines to meet Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) targets dates stipulated by the International Civil Aviation Organisation (ICAO). Denga (2017) argues that Boeing is not the preferred model for all low-cost airlines.

Finding

All respondents agree that optimising of equipment such as aircraft, can add more headcount whiles reducing overhead costs such as fuel. By using fuel efficient aircraft, such as the newer types, more passengers can be carried with lower fuel expenses. One airline introduction of new fleet, the generation 787, which will be a competitive advantage with better efficiency. The older fleet has more maintenance which erodes profits.

Point-to-point travel versus hub-and-spoke

Point-to-point travel versus hub-and-spoke travel is the huge differences between low cost airlines and full-service airlines (Sørensen, 2005). Point-to-point travel refers to an airline being predominantly responsible for transporting passengers between point A and point B. In such a situation when a passenger requires connecting a flight to Johannesburg or a flight from Cape Town, they need to book for their trips independently and the airline would not be held accountable for a delay caused resulting in a missed flight as they traverse from A to B (UK essays, 2015). They strictly traverse from A to B although passengers are permitted to purchase separately tickets, but they will be required to check-in procedures again at the transit port, so they need to accumulate additional time to their travel itinerary (Denga, 2017).

This also permits low cost airlines to fly city-pairs by seat demand only as they have no responsibility for high frequency to accommodate passengers waiting for a connecting flight (UKEssays, 2015). The hub-and-spoke system entails a hub (generally a primary airport) and spokes (generally secondary airports) that supply the

hub with passengers to have fully occupied seats on the aircraft. Many choices are available for passengers making a connection when they travel through various hubs using different airlines (UKEssays, 2015, Sørensen, 2005). Traditionally airlines compensated for the low numbers by charging passengers excessively high prices that travel from point to point, effectively cross-subsidising other passengers who negotiated for discounts.

Findings

Some low cost airlines uses the home base concept, ensuring that the cabin crew go home daily. This concept ensures that the airline does not incur accommodation and transportation cost. Creating efficiency could also mean partnering, and others partnered with organisations like Bidvest, Swissport for staffing solutions, thereby operating from a lean organisational structure.

Seat density

A critical element for low airline is to have a high seating density which has reduced cost benefits to passengers. Passenger numbers are higher in low cost airlines compared to full service airlines. This obviously permits low cost airlines to have full seats in their 'aircraft' therefore are able to breakeven or generate profits per flight (Sørensen, 2005; Marques, 2015).

Findings

The South African market is small. New entrants are not sustainable, but they are disruptive, because they erode profit share. Rand versus Dollar exchange rates are volatile, weaker rand threatens fuel prices. The market in South Africa is not big, and any new entrants will not come with new customers but will take a share from the same market. Partnering with Car Rental firms, such as Avis, Momentum or retail shops such as Edgar's, the airlines were able tap into customers who would pay for a ticket using the retailer's account and not have the burden to pay for it immediately but pay for it according to the terms of the account.

To be able impose yourself in the existing market, the ideal is to be able tap into the market of the people who have not flown before, in order to grow revenues and new experiences. The low-cost leadership strategy is to be able to introduce new people in the market. Considering that a small percentage of South Africans use flights as a means of transportation, products

that are offered need to appeal to larger audience and be more accessible to other economically challenged consumers. With creativity and innovation, the industry can be changed. All respondent agree on the small size of the Airline market in South Africa, and the need to grow it.

Choice of airports

South African airports are divided into 3 categories which are primary airports; secondary airports (located near major cities) and regional airports (located a distance away from capital cities). Regional airports have a low volume of passenger numbers (ACSA, 2017). Larger network carriers predominantly use primary airports as the "hub" in their hub-and-spoke systems and are therefore in a good position with regards to bargaining power, as they have the resources to process copious passenger numbers. Primary airports' charges exorbitant aeronautical fees and non-aeronautical fees, which include landing fees, airport fees and/or tonne of freight handled, aircraft parking charge, airport 'traffic' control, air bridges, transport fees and goods.

To reduce costs associated with aeronautical fees, low cost airlines have developed a strategy to use routes to secondary and regional airports, although they still maintain a presence in primary airports. This is due to the fact that primary airports attracted a large number of passengers resulting in congestions. This is not preferred by low cost airlines since they strive for low turnaround times (Raynor, 2011). Congestions on primary airports negatively impact on their schedule resulting in delay, hence secondary and regional airports are preferred as they can solve this problem. The disadvantage for passengers is that regional airports are located far from the city centre which is the destination therefore passengers have to travel long distance by bus to reach their destination (Sørensen, 2005).

Findings

The usage of secondary airports such as Lanseria, which is privately owned meaning your cost will be lower and are able to negotiate various prices with the airport management. The location of Lanseria, is an advantage for the customer as it is less congested with traffic compared to OR Tambo which is more complicated. Lanseria would also have lower handling and landing fees which will suit the Low-Cost Airline better in compared to the other major airports.

Distribution system

According to Sørensen (2005) low cost airlines have removed the services of travel agents to reduce costs and therefore distribute tickets via internet, retail stores and through their own call centres. O'Higgins (2011) reports that internet sales for low cost airlines has been increasing for the past ten years. By directly selling to customers, low cost airlines are able to collect data about their customers and communication directly to them (Diaconu, 2012). Electronic tickets are issued via email on smartphones. A customer would receive an electronic ticket which they present at check-in. This system decreases cost to a bare minimum in order to benefit passengers and the low-cost airlines by significantly reducing operating cost (Diaconu, 2012).

Findings

The use of retail shops makes it easier to obtain (an airline account) than a credit card. An additional benefit would be the Edcon's (retailer) Partnership loyalty programme. Another airline further used advertising in taxis to target a totally different target audience. Furthermore, the usage of Computicket as a distribution channel for tickets, is key to increase accessibility of tickets. The respondents mentioned the value of strategic partnerships and customer loyalty programmes. By allowing consumers to use clothing store accounts to buy air flight tickets on credit, the consumer base has been expanded.

RECOMMENDATIONS

Based on the data provided by the respondents, the reality is that start-up cost are extremely high and profitability is extremely low. In order to penetrate this market, an aspiring low-cost airline would need massive capital and support. Without large investment and support from established airline's, the existing low-cost airlines would have struggled to come into operation and become sustainable, like so many others mentioned in this research that started and could not survive.

Low-cost airlines need therefore to ensure that they embrace technology and invest in technologically advanced aircraft that can carry higher numbers of passengers at more

affordable rates. Also, the market needs to grow, as it is evident that there is a large portion of the population that does not use air flights as a mode of transportation. Through awareness marketing campaigns and continuous robust customer loyalty alliances, the low-cost airline industry, can grow the market by encouraging more individuals within South Africa to fly more frequently and also tap into the potential market of those who do not use air transport. The key to this is avoiding fruitless expenditure at airports, as this will erode profits. Staff compliment should be kept to a minimal and the aircrafts should spend as much time in the air as possible and little time as possible in the airport. Using cheaper airports such as Lanseria, has become commonly favourable.

CONCLUSION

Results show that adherence to the KSFs enhances the chances of survival in the industry. The research results could have come from more sources. Future research could get feedback from those airlines which could not survive the industry.

REFERENCES

Baumol, W. J. (1962). “On the Theory of the Expansion of the Firm.” American Economic. Review 52:1078–87

Bjarnason, E. (2015). Critical Success Factors for Planning, Scheduling and Control in Design and Construction. Reykjavík University.

Bunze, U.K. and Maes, J. D. (1998) Learning excellence: Southwest Airlines’ approach. Managing Service Quality. Vol. 8 (3) 163-169.

Casadesus-Masanell, R., & RIcart, J. E., (2009). From strategy to business models and onto tactics. Harvard Business School, 10-036.

Cresswell, J.W., 2009, Research design: Qualitative, quantitative, and mixed methods approach, 3rd edn. Sage, Thousand Oaks, CA.

Denga, D. 2017.Sustainability of Low-Cost Airlines within South Africa. School of Economic and Business Sciences (SEBS). University of the Witwatersrand

IATA, 2018. Market Developments. [Online] Available at: https://www.iata.org/publications/economics/pages/developments.aspx [Accessed 9 September 2018].

Diaconu, L., (2012). The evolution of the European low-cost airline business models. Ryanair case study. Procedia - Social and Behavioural Sciences, 62, 342 – 346.

O'Higgins, E.R.E., (2011). Ryanair - The Low Fares Airline: Future Destinations? Exploring Strategy - Text and Cases (ninth edition), pp. 618-629, Harlow, Essex, UK: FT Prentice hall.

Mack, R., (2013). A Study on Airline Strategy: Comparing Ryanair and Lufthansa to Determine the Best Strategy in the Industry. University of Victoria, Best Business Research Papers, June 2014, vol. 7.

Malighetti, P., Paleari, S., & Redondi, R., (2010). Has Ryanair's pricing strategy changed over time? An empirical analysis of its 2006–2007 flights. Journal of Tourism Management, 31, 36–44.

McCabe, R. (2006). Airline Industry Key Success Factors. [Online] Available at: https://gbr.pepperdine.edu/2010/08/airline-industry-key-success-factors/ [Accessed 9 September 2018].

Gamble J., Peteraf M. and Thomson A (Jr). 2017. Essentials of Strategic Management. *The Quest for Competitive Advantage.* 5th Ed. New York: McGraw-Hill Education.

Grant, R.M. (2010). Contemporary Strategy Analysis: *text and cases.* 7th Edition. John Wiley & sons Ltd.

Kriel. E. (2015). *A user's perspective on the role of Lanseria airport as an alternative*. University of Johannesburg.

Paelo, A., Vilikazi P., (2016). Barriers to entry for low cost carriers in the South African airline industry: *Competitive dynamics and the entry, expansion and exit of 1Time Airline,* available at: https://www.thedti.gov.za/ERPC/docs/Competition.pdf.

Sekaran, U., Bougie, R. (2016). Research Methods for Business: A Skill Building Approach. Seventh Edition. United Kingdom: John Wiley & Sons LTD.

Porter, M. E., (1985). "Competitive Advantage". Ch. 1, pp 11-15. The Free Press. New York.

Raynor, M. E., (2011). Disruptive Innovation: The Southwest Airlines Case Revisited. Strategy & Leadership, 39(4), pp. 31-34.

Roseingrave, E., (2000). Ryanair: the growth airline of Europe. Student Economic Review.

Shah, A. J. (2007). Southwest Airlines Co. – 2007. In David, F. R., Strategic Management: Concepts and Cases, thirteenth ed. Singapore: Pearson, 199–210.

Wadhwa, I. (2014). How to achieve your Career Ambitions http://greatlifezone.com/how-to-achieve-your-career-ambitions{Accessed 07/06/2018}