TURNAROUND STRATEGIES FOR SADC AIRLINES
WITH SPECIFIC REFERENCE TO
AIR ZIMBABWE

by

ELIJAH CHINGOSHO

submitted in fulfilment of the requirement for
the degree of

MASTER OF COMMERCE
in the subject
TRANSPORT ECONOMICS
at the
UNIVERSITY OF SOUTH AFRICA

SUPERVISOR: PROFESSOR M SHAHIA
JOINT SUPERVISOR: PROFESSOR C A SMUTS

MARCH 1998

******************
SUMMARY

The financial and economic performance of SADC airlines has been poor for some time. The Governments, citizens of SADC countries and donor agencies are no longer tolerating the existence of loss making foreign currency intensive, prestige national airlines. This dissertation seeks to find ways to turnaround the poor performance of SADC airlines.

The dissertation focused on the three basic turnaround strategies of cost leadership, differentiation and focus. The McKinsey 7-S framework was used to analyse the strengths and weaknesses of SADC airlines. The external (operating) environment was also analysed to determine the opportunities and threats. A study was carried out of some successful turnarounds of British Airways and Scandinavian Airline System. Singapore International Airlines, one of the most successful airlines in the world, was also studied in detail.

The study showed that the strategy of cost leadership while focusing on domestic and regional operations was most likely to result in optimal performance of SADC airlines.
ACKNOWLEDGEMENTS

I would like to express my appreciation to Mrs N Mabika, Aeronautical Information Services Officer with the Zimbabwe Department of Civil Aviation, for providing me with ICAO statistics. My grateful thanks also to the Southern African Transport and Communications Commission for furnishing me with comprehensive statistics and information on SADC airlines.

My appreciation goes to the following airlines for furnishing me with literature such as brochures, fact books or annual reports on their airlines: Air Botswana Corporation, Air Canada, Air Zimbabwe, Air Namibia, AMR Corporation (American Airlines), British Airways, British Midland Airways, Cathay Pacific Airways, Delta Airlines, Ethiopian Airlines, El Al (Israel Airlines), Japan Airlines, Kenya Airways, KLM, Lufthansa, Malaysian Airlines, Quantas Airways Ltd, Singapore International Airline, Scandinavian Airline System, United Airlines, Virgin Atlantic and Zambian Airways.

My appreciation also goes to the following people for granting me their valuable time, advice and views during my information gathering process:

a. Mr Brian L.K. Pocock, Chief Executive Officer, Air Botswana Corporation.

b. Mr Warren Basler, Chief Executive Officer of Basler Airlines, Wisconsin, USA.

c. Mr Peter Richards, Senior Flight engineer, British Airways.

d. Mr L.J. Boerringer, Mechanical Overhaul Manager, Air Zimbabwe Corporation.

e. Mr E. Moyo, Chief Instructor, Aviation Training School, Air Zimbabwe Corporation.
f. Mr M Yousuf, Carefree Travel (Pvt) Ltd.

g. Mr G.R. Hampshire, Senior Airworthiness Inspector of the South African Department of Civil Aviation.

h. Mr C Wagofya, Chief Internal Auditor, Air Tanzania Corporation.

i. Ms Beverly Bennett, British Airways Manager for Zimbabwe, Angola and Mozambique.

j. Mr D Matikiti, Quality Assurance Manager, Air Zimbabwe Corporation.

k. Mr M Madders, retired director of the Department of Civil Aviation, Zimbabwe.

l. Mr G Konate, Technical Director, African Airlines Association.

I would like to thank my supervisor, Professor M Shahia and joint supervisor, Professor C A Smuts, for their interest, guidance and direction throughout the study.
## GLOSSARY

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<td>AFRAA</td>
<td>African Airline Association</td>
</tr>
<tr>
<td>AFCAC</td>
<td>African Civil Aviation Commission</td>
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<tr>
<td>APK</td>
<td>Available Passenger Kilometre</td>
</tr>
<tr>
<td>ASK</td>
<td>Available Seat Kilometre</td>
</tr>
<tr>
<td>ATK</td>
<td>Available Tonne Kilometre</td>
</tr>
<tr>
<td>B</td>
<td>Boeing</td>
</tr>
<tr>
<td>BA</td>
<td>British Airways</td>
</tr>
<tr>
<td>BAe</td>
<td>British Aerospace</td>
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<tr>
<td>CAA</td>
<td>Civil Aviation Authority (United Kingdom)</td>
</tr>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
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<tr>
<td>CRS</td>
<td>Computer Reservation System</td>
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<tr>
<td>DC</td>
<td>Douglas Commercial</td>
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<tr>
<td>DCA</td>
<td>Department of Civil Aviation</td>
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<tr>
<td>DHC</td>
<td>De Havilland Canada</td>
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<td>DOC</td>
<td>Direct Operating Cost</td>
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<tr>
<td>EAA</td>
<td>East African Airways</td>
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<tr>
<td>ECA</td>
<td>Economic Commission for Africa (United Nations)</td>
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<td>EL AL</td>
<td>Israel Airlines Ltd</td>
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<tr>
<td>F</td>
<td>Fokker</td>
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<tr>
<td>HS</td>
<td>Hawker Siddeley</td>
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<tr>
<td>IATA</td>
<td>International Air Transport Association</td>
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<tr>
<td>ICAO</td>
<td>International Civil Aviation Organisation</td>
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<td>JAL</td>
<td>Japan Airlines</td>
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<tr>
<td>KAL</td>
<td>Korean Airlines</td>
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<tr>
<td>KLM</td>
<td>Royal Dutch Airlines</td>
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<tr>
<td>LAM</td>
<td>Linhas Aereas De Mocambique (Mozambique Airlines)</td>
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<tr>
<td>MD</td>
<td>McDonnel Douglas</td>
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<tr>
<td>MIS</td>
<td>Management Information Systems</td>
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<tr>
<td>MSA</td>
<td>Malaysia – Singapore Airlines</td>
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<tr>
<td>N/A</td>
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<tr>
<td>Pan Am</td>
<td>Pan American</td>
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<tr>
<td>Plc</td>
<td>Public Limited Company</td>
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<tr>
<td>PTA</td>
<td>Preferential Trade Area</td>
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<tr>
<td>PTK</td>
<td>Passenger Tonne Kilometre</td>
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<td>RSA</td>
<td>Republic of South Africa</td>
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<tr>
<td>RPK</td>
<td>Revenue Passenger Kilometre</td>
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<td>SAA</td>
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<tr>
<td>MTOW</td>
<td>Maximum Take-off Weight</td>
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<td>SADC</td>
<td>Southern African Development Community</td>
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<td>Southern African Development Coordination Conference</td>
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<td>SAS</td>
<td>Scandinavian Airline System</td>
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<td>SATCC</td>
<td>Southern African Transport and Communications Commission</td>
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<td>SIA</td>
<td>Singapore International Airlines</td>
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<tr>
<td>S$</td>
<td>Singapore Dollar</td>
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<td>TAAG</td>
<td>Angola Airlines</td>
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<td>TAP</td>
<td>Air Portugal</td>
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<td>t-km</td>
<td>tonne - kilometre</td>
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<tr>
<td>TWA</td>
<td>Trans World Airline</td>
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<td>United Airlines</td>
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<td>United Kingdom</td>
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<tr>
<td>USA</td>
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<tr>
<td>USSR</td>
<td>Union of Soviet Socialist Republics</td>
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<tr>
<td>US$</td>
<td>United States Dollar</td>
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<td>VARIG</td>
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1. INTRODUCTION

1.1 Background to the Study
1.1.1 General

The Southern African Development Community (SADC) airlines are presently characterised by massive losses, heavy subsidies, low aircraft utilisation, heavy interest and capital repayments for aircraft procurement and other related equipment, overmanning, lack of adequate skilled manpower in some areas, generally management without a clearly laid down policy on the role of the airline in the national economy (SATCC & World Bank 1992: 1-3). The economies of the SADC countries are suffering from chronic shortages of foreign currency to finance the required levels of imports of both raw materials and capital investment. The average economic growth is below the rate of population growth. Most of the SADC countries are embarking on some sort of economic structural adjustment programmes supported by the World Bank and some Western donor countries.

Some dynamic political changes are also taking place within the region following the collapse of communism in the former USSR. There are increasing moves towards democratisation of governments and institutions within SADC countries. The population and donor agencies are increasingly demanding greater accountability and questioning some Government policies such as the heavy subsidies to national airlines which hardly benefit the population.
SADC airlines are not the only ones experiencing problems. Generally, the performance of airlines all over the world in the past four years or so (1990 - 1993) has been dismal. This is the case with airlines operating in deregulated systems as well as those operating under the previous bilateral structure as explained below.

Lucking (1993 : 20-21) explains that airlines in the USA have been incurring heavy losses for several years and their finances were becoming precarious. A similar situation was said to have emerged in Canada. Losses or bankruptcies were reported in Australia and New Zealand. All these airlines are or were from countries which have deregulated their domestic operations.

Performance of airlines in those countries where the previous bilateral structure still exists was similarly bad. According to Pocock (1993a :8) the 208 members of IATA which carry 96 per cent of the world’s traffic have collectively lost about US$10 billion on their domestic and international operations in just three years. Among the reasons for the losses was the Gulf war and the subsequent world recession.

Although some airlines such as British Airways and Singapore International Airlines made some profit in 1990-1993 (see Chapter 3), the following examples will illustrate the widespread nature of poor financial performance of world airlines.

a. In the first half of 1993, the Austrian flag carriers’ losses were US$29 million, more than double from the previous year,
despite a cost cutting programme and a 2.6 percentage points improvement in load factors (Flight International 3 - 9 November 1993: 27).


c. Air France had accumulated deficits from 1990 of 450 million pounds (Sterling), of which 320 million pounds was in 1992. A heavy loss was expected in 1993. This is despite the fact that Air France receive Government subsidies (Aerospace - March 1993: 6).

d. TAP - Air Portugal was estimated to make losses of up to US$335 million for 1992 calendar year. In April 1993, the airline was unable to pay the full salaries for all its 10 000 employees (Flight International 19 - 25 May 1993: 21).

e. Air Canada reported a net loss of C$293 million (US$230 million) for the first quarter of 1993. The Airline had plans to make a major corporate re-organisation, which could result in up to 1500 job losses by the end of 1993 (Flight International 19 - 25 May 1993: 20).

f. Quantas made a net loss of A$377 million (US$250 million) for the year to 30 June 1993, after writing off costs of absorbing Australian Airlines (Flight International 3 - 9 November 1993: 22).
g. Japan Airlines (JAL) made a net loss of Yen 44 billion (US$378 million) for the year ending 31 March 1993. The Airline made a net loss of Yen 50 billion for the fiscal year 1992. The Airline, in the face of these losses, was reported to have embarked on a new package which included route restructuring, staff layoffs and a Yen 200 billion cut in planned investment (Flight International 20-26 January 1993:9 and 2 - 8 June 1993 :7).

h. KLM made a loss of more than US$300 million in 1992, following a small profit in the previous year. The Airline was reported to have recorded a 9 percent decline in revenue yields (Aerospace - July 1993 : 9).


1.1.2 Deregulation

Formerly, regulation was justified on the grounds that an unregulated airline industry, because of the relatively low entry barriers, would result in intense or uneconomic competition which would result in chronic financial instability. Consequently the
national requirement for a reliable system of regular air transport services would not be met.

The air transport industry is undergoing profound changes throughout the World due to the abandonment of the fundamental assumptions about the need for regulation. There is a body of thought that suggests that the protection which the industry received by regulation was unnecessary and that it has, in fact, worked against the industry's own longer term interests. The argument is that by being protected, the industry did not see the need to respond to free market forces leading to inefficiency and waste. Tariffs were kept unnecessarily high keeping traffic levels down (Doganis 1992:51-52).

Deregulation started with the United States domestic operations in 1978 followed by countries such as Canada, the UK, Australia and New Zealand (Wheatcroft 1990:240). This resulted in relaxation of controls over tariffs, capacity and market access.

One result of deregulation has been the emergence and domination of the market by a small number of very large airlines or 'mega-carriers' in the USA as a result of mergers and takeovers. An oligopolistic industry with four airlines carrying over 90 per cent of the passenger traffic emerged (Wheatcroft 1992:1). Many airlines in the USA have gone bankrupt. Examples are Braniff whose operations were severely affected by new low-cost operators who were allowed to compete for traffic on their more profitable routes (Transport Tutorial Association 1984:109). A more recent example is Pan AM which went into liquidation.
As competition has become more intense with the advancement of deregulation, these 'mega-carriers' have tended to withdraw from the less profitable routes as well as ceasing to serve some airports so as to concentrate their resources and efforts on routes which they are more properly equipped to serve, and on which they face their greatest competition (Transport Tutorial Association 1984: 110). As a result of this, some communities with a low traffic level have been separated from the mainstream of major air services. Some smaller feeder airlines have emerged to fill the gap created by connecting these communities to the hubs or major transhipment points on the major networks.

Many see deregulation as being in the interests of the consumer since tariffs are generally lowered, the choice of carriers is wider and many routes have been opened up in the era of free competition.

From USA, Canada, the United Kingdom, Australia and New Zealand, deregulation has spread to Europe and Asia. Moves towards deregulation have been slow to be adopted in Africa. South Africa deregulated its domestic operations and domestic deregulation is under consideration in India (Wheatcroft 1992:1). In international operations, South Africa, like all SADC countries as well as other African countries adopt protectionist attitudes (Brits and Smuts 1992:41).
1.1.3 Globalisation

An important recent feature within the airline industry is the emergence of multinational airlines. These changes were initiated by widespread moves in developed countries' governments to relinquish ownership of national flag carriers (Wheatcroft 1990: 241). Private ownership of airlines reduced the aggressive promotion of purely national short-term aviation interests which generally characterised most past policies. Wheatcroft (1992: 1) states that over 40 airlines in as many different countries are involved in the transformation of national airlines to private ownership. World air traffic in the 1990s were predicted to be dominated by private airlines with no direct government interest. This was predicted to contribute significantly to a lessening of protectionist attitudes in international aviation policies and the acceptance of foreign ownership. There are about 24 airlines in different countries which have substantial foreign ownership (Wheatcroft 1992a: 2). Wheatcroft (1992: 1) believes that concentration and globalisation are inevitable in the airline industry. This is largely due to the huge marketing advantages of very large airlines in a deregulated environment. With giant airlines dominating the future airline industry, the large number of smaller airlines were predicted to operate on feeder routes and in niche markets. Wheatcroft states that these developments will be in the best long term interests of the travelling public. This would result from the emergence of an efficient and profitable, stable oligopolistic structure similar to that of other major industries such as chemicals, motor vehicles, oil, insurance, aircraft manufacturing
and metals. However, continued protection of the small national airlines of the developing world was expected.

Not everyone shares Wheatcroft's views on globalisation and concentration. Pocock (1993a:8) states that the greatest protagonists of deregulation are largely acting out of self interests by favouring large aviation powers and not the interest of the industry at large. Deregulation, he argues, implies that there is free competition in a perfect market created by the abandonment of controls or regulations to allow consumers to benefit from the withdrawal of the inefficient operators leaving the efficient ones. The air transport industry was said to have too many imperfections that a perfect market could not exist.

Pocock (1993a:8) recognises that air transport is required, among other things, to fulfil the demand for economic and social integration, facilitate regional economic development, serve tourism and establish air (communication) links to the remote or less developed areas with low traffic demand. Concentration would result in a monopoly situation which would be inconsistent with the need to preserve consumer choice, the operator's lack of local knowledge, lack of technology transfer and foreign exchange drain.

Lucking (1993:20) argues that airline competition under the deregulated environment in the USA, Canada, Australia, New Zealand and South Africa is not working. The reasons given are that competition in passenger transport leads to excessive capacity, discounting,
bankruptcy by one or more of the competitors, and the attempt to recover loans and shareholders money by raising tariffs and providing poorer services. This state of affairs often emanated from many routes not being dense enough to sustain conventional competition.

Studies had shown that a dominant operator was likely to be more successful in attracting the more lucrative traffic. The new entrant would be compelled to provide at least similar frequency of service with comparable aircraft, thus almost automatically adding extra capacity.

Although some extra capacity may be required to accommodate the extra traffic generated by reduced tariffs, the total capacity available is often greater than demand. Carriers then introduce sub-economic fares resulting in chronic losses.

It is against the background discussed above that strategies to turnaround SADC airlines are being sought.

1.2 Limitation of the Study

The study is limited to the original ten SADC countries which comprise Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, Swaziland, Tanzania, Zambia and Zimbabwe. South Africa, which recently joined SADC (1994), is excluded from this study. South Africa is different from the ten SADC states in a number of respects. It has a comparatively huge, diversified and very sophisticated economy whose Gross National Product is many times that of the combined SADC states. South Africa, therefore, does not experience
some of the peculiar problems of SADC states which include tiny airlines with small domestic markets and experiencing comparatively huge financial and economic losses.

1.3 Overview of SADC Airlines

The ten SADC countries are all operating their own small airlines. They are all state owned except for Aero Zambia, which is privately owned with the Zambian Government owning some shares. The approximately seventy aircraft in the SADC fleet comprise more than seventeen varieties (Southern African Economist 1988:3). This is at a time when airlines from the developed and newly industrialised countries are rationalising their operations and through mergers and takeovers, forming large operating units. This is in response to worldwide moves towards deregulation and the resulting intense competition as well as recession. The large operating units benefit from economies of scale in such areas as maintenance, training and purchasing of spares, aircraft and other equipment.

The SADC airlines serve the domestic, regional and intercontinental markets. The domestic market is generally served by smaller short-range aircraft such as the BAE 146, the De Havilland Twin Otter and the Fokker 50. The regional market which include SADC and some African countries outside SADC are served by medium range aircraft such as the Boeing 737 and ATR-42 and in some few cases by narrow bodied long range aircraft such as the Boeing 707. The intercontinental markets are generally served by long-range wide bodied aircraft such as the Boeing 767 and DC - 10 - 30.
The SADC airline industry is tightly regulated. All scheduled passenger services are operated by national airlines. Air transport is a critically important form of communication especially in countries like Tanzania which have poor surface transport facilities (sea, road and railway systems) and countries affected by wars such as Angola and Mozambique. Travel between some SADC countries are only possible by air such as from Lesotho to Tanzania or Swaziland to Angola. In a bid to forge national political, social and economic unity, some governments have tended to regard air passenger transport as a public service which has to be carried out at any cost. Hence, some fares especially on domestic operations were often tightly controlled resulting in heavy financial losses (SATCC & World Bank 1992:48).

International traffic is regulated through a system of bilateral air services agreements. Although SADC political leaders emphasize the need for increased cooperation in various spheres, they have generally failed to translate the political rhetoric into practical cooperation, for example, SADC countries typically deny each other fifth freedom rights. This is despite the low aircraft utilization which was estimated to average about four hours a day or about a third of the flying time required to break even (The Southern African Economist 1988:6). One of the few cooperative successes were through the efforts of the Southern African Transport and Communications Commission (SATCC) to rationalise the schedules of SADC airlines. The number of flights per week between SADCC capitals increased from 114 to 214 between 1984 to 1987 (The Southern African Economist 1988:5).
During the same time the number of connections through Johannesburg dropped from 169 to 122 per week.

The political situation in South Africa has radically changed in the past few years. A new Government of National Unity led by the ANC's Nelson Mandela was formed in May 1994. It is no longer a SADC objective to reduce dependency on South Africa. The high degree of integration of the SADC route network with that of South Africa remains. In fact, with the changed political situation in that country and with the consequent erosion of international isolation, South Africa will increase its importance as part of the SADC airlines' route network. Because of the strong historic links of South Africa with SADC countries, South Africa continues to be a major destination for passengers from SADC countries. The much stronger, diversified and sophisticated South African economy makes it a major destination for passengers and freight to and from the Western developed nations. This will continue to reinforce Johannesburg as a major hub in Southern Africa.

SADC governments appear to be slowly grasping the simple fact that there is need for change. Per capita incomes within SADC are falling (with the exception of Botswana and Mozambique), external debt is increasing and the scarce foreign exchange is becoming even more scarce. The governments can no longer afford to keep on propping up loss making parastatals especially airlines which take a significant bite into the scarce foreign exchange resources. Change is, therefore, inevitable. One significant change was the change from SADCC, a coordinating mechanism to SADC, a regional economic and
political community. Bold new strategies are required to turn around the present unsatisfactory performance of SADC airlines in an increasingly hostile operating environment.

1.4 Objectives of the Study

1.4.1 Main objective

The main objective of the study is to develop from the literature strategies to turnaround the poor economic and financial performance of SADC airlines in general and Air Zimbabwe in particular.

1.4.2 Subsidiary objectives

The subsidiary objectives of the study are as follows:

a. To carry out a literature research in order to derive ideal theoretical turnaround strategies for airlines.

b. To study some airlines which have carried out successful turnarounds as well as an airline which has consistently maintained profitable operations for over twenty years so as to derive practical strategies which were or are being successfully employed.

c. To carry out an analysis of SADC airlines namely to determine the weaknesses and strengths as well as opportunities and threats to SADC airlines.
1.5 Methodology

A subject of this nature requires a huge amount of literature and data collection. The sources of this information are described below.

1.5.1 Airlines

A lot of information on the performance of airlines can be obtained from their annual reports. It was, therefore, necessary to write to airlines all over the world requesting for annual reports and any other literature on their airlines.

Letters were sent to over seventy airlines all over the world. More than a quarter of the airlines responded and their names are listed in the acknowledgement. A lot of valuable information was received on the airlines that responded. Often, not only were the annual reports received but also additional general information such as on the history and general profile of the airlines.

It was from an analysis of the airlines' financial performance, their operating statistics, the chairman's review or Director's Reports and any other information on the airlines that the link between airline performance and strategies, within the context of the operating environment and internal characteristics, could be deduced.
1.5.2 Department of Civil Aviation (DCA)

The DCA in Zimbabwe with headquarters in Harare have a library with a wide range of literature. This ranges from magazines such as Flight International to International Civil Aviation Organisation (ICAO) statistics. The various magazines provided current and up to date information on the performance of airlines. The ICAO Digest of Statistics, 1991 (this was the latest available) provided various data on airlines. This included financial data namely the balance sheet and profit and loss accounts, origin - destination statistics, fleet size, fleet personnel, airport statistics and traffic statistics.

Some problems were encountered on the use of ICAO statistics. Some of the information on airlines was incomplete. For example, there were no financial information on Air Zimbabwe, Zambia Airways, Air Namibia, Royal Swazi Airways, Mozambique Airline (LAM), Angolan Airline (TAAG) and Air Malawi. ICAO relies on governments who supply them with the required information in the required format while others delay their reports or do not report at all. The 1990/91 annual report for Air Zimbabwe for the year ended 30 June 1991, for instance, was only published in September 1992 but was not provided to ICAO.

ICAO statistics need to be interpreted with caution. The degree of accuracy of the data from either airlines, airport authorities or civil aviation authorities is not known. Different methods of definitions, classifications, reporting and recording can be used. For example, traffic statistics provided by the DCA in Harare were
different from those from the Air Zimbabwe annual report. Hence, to obtain reasonably complete data, greater reliance has been put on analysing information from airline annual reports furnished by the various airlines.

1.5.3 IATA/AFRICAN REGIONAL AIRLINE ASSOCIATION (AFRAA)/AFRICAN CIVIL AVIATION COMMISSION (AFCAC)

Attempts to obtain IATA/AFRAA/AFCAC statistics proved fruitless. This information, if it had been obtained, would also have suffered from similar drawbacks to ICAO statistics. This information would have been useful in verifying the ICAO statistics. However, lack of this data was not felt to be of critical importance since greater reliance was made on statistics from airline annual reports rather than ICAO.

1.5.4 The Southern African Transport and Communications Commission (SATCC)

SATCC, based in Maputo, Mozambique, has for a number of years been promoting closer regional cooperation in the field of transport and communications. A written request was made for their views on the feasibility of a SADC airline and any progress or otherwise being made towards this end.

SATCC assisted me with a document, "The SADCC Airline Industry Study" dated March 1992, compiled by the organisation in conjunction with the World Bank. This document proved valuable in providing comprehensive SADC airline and other related statistics which could not be obtained from any other source.
1.5.5 Books

Various books which are given in the references were consulted and a vast amount of useful information was obtained.

1.5.6 Interviews

In looking into the issues identified in this dissertation, it was found necessary to approach some organisations and individuals who have some interests in the subject on hand. Those interviewed included representatives from airlines, travel agents and from SATCC. The names of the representatives are included in the acknowledgement. The specific discussions with each organisation or individual are not included.

1.6 Exposition of the Study

The research is divided into seven chapters. The first chapter outlines the main focus of the research effort. In the second chapter, a literature research is carried out pertaining to the identification of the ideal strategies for success of airlines. The McKinsey 7-S framework is also discussed which would be employed as a tool to analyse the internal environment of SADC airlines. The McKinsey 7-S framework suggests the components of organisational structure, strategy, systems, style, staff, shared values (superordinate goals) and skills must all fit together to make a strategy work effectively.
The third chapter is a study of British Airways and Scandinavian Airline System which made successful turnarounds in the early 1980s. A study of Singapore International Airlines, a consistently profitable Airline since 1972, is also carried out. From a study of these airlines, practical strategies which resulted in the success of the airlines are derived.

The fourth chapter is a derivation of pragmatic turnaround strategies for SADC airlines on the basis of the research in chapter 2 and 3. The fifth chapter is a study of the internal environment of SADC airlines to determine their strengths and weaknesses as well as the opportunities and threats in the external environment. This allowed strategies to be developed to take advantage of the opportunities through organisational strengths while countering threats by the use of strengths and to address the weaknesses in order to take advantage of opportunities. Research is also carried out into work previously carried out on SADC airlines especially in the area of airline cooperation. The success or otherwise of previous cooperative efforts are examined with the view to avoiding short-comings and to build on any success.

In chapter 6, the application of the pragmatic strategies derived in chapter 4 are evaluated in view of the findings of the analysis of SADC airlines carried out in chapter 5. Chapter 7 concludes the study with a summary, findings and recommendations.
2. THEORY/LITERATURE REVIEW

2.1 Introduction

In this chapter, a literature research is carried out with the view to coming up with ideal strategies to turnaround the poor economic and financial performance of SADC airlines. This would assist in coming up with pragmatic strategies which could result in successful operations by SADC airlines. The possible turnaround strategies discussed are cost leadership, differentiation and focus. The critical nature of effective management in the formulation and implementation of appropriate turnaround strategies is also discussed.

Once an appropriate strategy is identified, it is necessary to ensure that it is effectively implemented. One conceptual model, namely the McKinsey 7-S model, is often used as a checklist in an attempt to ensure that any chosen strategy is effectively implemented. This model is discussed and would be used in chapter 5 to analyse the internal environment of SADC airlines to reveal weaknesses and strengths.

2.2 Types of Turnaround Strategies

Turnaround strategies are the activities undertaken to stop an organisational decline or downturn and stimulate an upturn in its performance. The financial performance of SADC national airlines is poor (SATCC & World Bank 1992 : 47). The airlines are incurring
losses. None are generating enough cash from operations to make an adequate return on capital invested or to replace their assets. Turnaround strategies to prevent further decline and stimulate an upturn are being sought.

Table 2.1 shows the financial performance of Air Zimbabwe in the decade from 1981/82 to 1990/91 financial years. The Airline consistently registered a loss despite receiving annual subsidies from the Government.

The environment in which SADC airlines are operating is becoming increasingly more hostile with fierce competition from some well established carriers from the western developed nations such as Great Britain, France, Germany, Switzerland, the Netherlands, Italy, Spain, and Portugal. Table 2.2 shows the decline of SADC national airlines share of intercontinental (international to and from SADC) passenger traffic between 1987 - 1989 even before the SADC environment was made more open for foreign carriers.

New African (1995 : 24) confirms that African airlines (including SADC airlines) were meeting ferocious competition in today’s deregulated markets. European airlines were said to be holding 80 per cent of the traffic between Africa and Europe. Over 1994, Africa’s passenger traffic was said to have fallen by 4.2 per cent while worldwide the number of air travellers rose by 7 per cent. It could, therefore, be argued whether it is worth saving these airlines. However, SADC airlines fulfil some important social, economic,
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<tbody>
<tr>
<td>Net Profit (Loss) as Percentage of Revenue</td>
<td>(3.78)</td>
<td>(23.33)</td>
<td>(34.73)</td>
<td>(44.62)</td>
<td>(31.3)</td>
<td>(24.66)</td>
<td>(23.46)</td>
<td>(8.72)</td>
<td>(4.68)</td>
<td>(25.07)</td>
</tr>
<tr>
<td>Total Operating costs per tonne - km (US)</td>
<td>0.61</td>
<td>0.63</td>
<td>0.64</td>
<td>0.78</td>
<td>0.85</td>
<td>0.87</td>
<td>1.15</td>
<td>1.31</td>
<td>1.37</td>
<td>1.33</td>
</tr>
<tr>
<td>Revenue per Tonne - km (US)</td>
<td>0.67</td>
<td>0.49</td>
<td>0.46</td>
<td>0.63</td>
<td>0.64</td>
<td>0.73</td>
<td>0.93</td>
<td>1.23</td>
<td>1.23</td>
<td>1.30</td>
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Table 2.1: Financial Performance (in nominal figures) of Air Zimbabwe 1981/82 - 1990/91 (Source: Air Zimbabwe Corporation Annual Reports).

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<tr>
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<th>1987</th>
<th>1988</th>
<th>1989</th>
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<tr>
<td>TAAG Angola</td>
<td>37</td>
<td>27</td>
<td>31</td>
</tr>
<tr>
<td>LAM Mozambique</td>
<td>73</td>
<td>72</td>
<td>61</td>
</tr>
<tr>
<td>Zambia Airways</td>
<td>73</td>
<td>69</td>
<td>65</td>
</tr>
<tr>
<td>Air Zimbabwe</td>
<td>43</td>
<td>27</td>
<td>27</td>
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</table>

Table 2.2: SADCC National airlines' percentage share of intercontinental passenger traffic, 1987-89 (SADCC & World Bank 1992 : 26).
political and strategic needs as discussed in section 1.3 such that SADC Governments are unlikely to contemplate such a strategy, unless if compelled to do so by donor agencies like the World Bank, as was the case with Zambia Airways, which was liquidated in December 1994. The liquidation strategy will, therefore, not be considered further.

Hoffman (1989 : 46 - 57) studied seventeen previous researches on corporate turnaround strategies. Most of the seventeen studies were carried out between 1951 and 1983 among United States manufacturing firms. Based on the research, Hoffman (1989 : 57 - 58) came up with five generic turnaround strategies as well as three stages of implementing them. The first or preparatory stage involves restructuring an organisation’s leadership and culture. This is followed by three short term ‘fix’ stages which comprise cost reduction, asset redeployment (sell assets, close or relocate units) and selective product/market strategy (divesting products, increase prices; improve quality or service etc). Lastly the repositioning strategies in the growth phase which may, among other things, involve diversification, market penetration or divesting products.

Porter (1985 : 65 - 70) describes three generic strategies which can be used by any firm in any industry to gain a competitive edge over rival organisations namely cost leadership, differentiation and focus. The three generic strategies are depicted on Figure 2.1. The cost leaders manufacture products or provide services at costs consistently below those of competitors. Differentiators provide services or create products that are difficult to imitate because of their quality, image or novelty. Buyer loyalty is enhanced, and
premium prices can be obtained as well as exceptional profits. Lastly, the focus strategy uses either cost leadership or differentiation to appeal to a narrow market niche which the organisation understands and caters for better than any possible competitors.

Competitive advantage

<table>
<thead>
<tr>
<th>Competitive Scope</th>
<th>Competitive Target</th>
<th>Lower cost</th>
<th>Differentiation</th>
</tr>
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<tbody>
<tr>
<td>Broad</td>
<td></td>
<td>1. Cost Leadership</td>
<td>2. Differentiation</td>
</tr>
<tr>
<td>Narrow</td>
<td>3A. Cost focus.</td>
<td>3B. Differentiation focus</td>
<td></td>
</tr>
</tbody>
</table>

Figure 2.1 Three Generic Strategies (Source: Porter (1985: 66)

The generic strategies suggested by Hoffman were developed in mature manufacturing industries in the USA. These strategies may not be applicable for service industries such as air transport in third world countries. However, the generic strategies suggested by Porter are more general and can be used by an organisation in any industry such as service or manufacturing. Therefore, Porter's generic strategies will be used in this study.

Hofer (1986: 682 - 684) make a distinction between strategic and operating turnarounds. Strategic turnarounds involve altering the
type of business undertaken by a firm. Operating turnarounds involve improving or refining the way an organisation conducts business. Hoffman (1989: 57) conclude that some combination of both strategic and operational turnarounds is required.

2.3 Cost Leadership Strategy

2.3.1 General

The cost leadership strategy is depicted in Figure 2.2 below.

![Diagram of Cost Leadership Strategy]

Figure 2.2

The cost leadership strategy seeks to achieve cost, production and market/service efficiency, as described below, in all aspects of airline operations. Airline management have the responsibility to articulate and ensure that the cost leadership strategy is effectively formulated and implemented.
2.3.2 Production Efficiency

The cost leadership strategy requires that production efficiency be realized. The production function of an airline is the operations function which is involved in fleet planning, maintenance and scheduling.

Production efficiency can be achieved through efficient and effective airline scheduling. Costs can be minimised through optimum utilisation of an airline's resources if the schedule permits. Airline scheduling which involves the design of market demand related system wide flight patterns should allow corporate objectives to be achieved. Efficient and effective scheduling involves striking a balance between crew utilisation, equipment maintenance, use of facilities, market and other factors as described below.

a. Airline Scheduling.

Pilots, flight engineers and cabin attendants should be adequately trained on the relevant aircraft type and optimally utilised to ensure minimal costs and maximum profit. The maintenance plans and schedules ought to be designed to enable an even flow of maintenance work to ensure the efficient utilisation of facilities and personnel while ensuring that the required aircraft are available for services. Adequate facilities to meet the anticipated demand such as gate space, ticket counters, waiting rooms, cargo and baggage handling facilities should be available.
b. Maintenance

Aircraft should be maintained to ensure the highest possible level of safety and safe aircraft should be provided for every schedule. The maintenance system should be designed to allow maximum aircraft utilization or minimal out-of-service time for aircraft while providing high standards of maintenance. To minimise costs, the time allowable in the various maintenance programmes need to be utilised to the maximum. Since aircraft maintenance require various highly trained and skilled personnel who constitute a significant cost element in an airline, it is necessary to utilise them optimally. Hence the need for an even flow of work to avoid overloading the maintenance capacity at times. Likewise, it is also necessary to optimally utilize expensive maintenance facilities such as tools, workshops, test and other equipment.

c. Fleet Planning

Fleet planning involves the selection of the optimum number, type and size of aircraft to ensure that an airline's objectives are effectively realized. The information required in the fleet planning process include current resources, corporate objectives, the projected operating environment and the marketing strategy. This information is fed into computers to produce the fleet planning model to determine future aircraft requirements. This is followed by aircraft evaluation and selection which takes into consideration design characteristics, physical performance,
maintenance requirements, acquisition costs and operating costs. Finally a tentative fleet plan and financial evaluation is carried out. This would need to be approved by top management before an airline can start to negotiate with potential suppliers.

Cost efficiency in fleet planning is realized through limiting the number of aircraft types in an airline's fleet (Gialloreto 1988: 41-42). This reduces pilot and other flight crew training costs, maintenance and maintenance training costs, the cost of spare parts inventories and the overall complexity of the operation. Gialloreto illustrates this point by Pan Am's steady decline following its acquisition of National in early 1980s. In acquiring National, Pan Am's objective was to take advantage of National's relatively strong domestic route structure, its lower costs and its relatively high quality of service in several markets to achieve profitable operations. However, Pan Am's financial performance deteriorated after its acquisition of National because, among other reasons, it found itself with three wide body fleet types of Boeing 747s, Lockheed L-1011s and Douglas DC-10s.

d. Labour Productivity.

Table 2.3 shows the average annual remuneration for pilots, co-pilots and cabin attendants for some airlines in America, Europe and Asia/Australasia. From the table it is evident that there is wide variation in remuneration for the same category of staff.
between airlines and regions. Wage levels for European pilots/co-pilots and cabin attendants are highest, followed by North American and lastly Asian.

<table>
<thead>
<tr>
<th>REGION/AIRLINE</th>
<th>PILOTS AND CO-PILOTS</th>
<th>CABIN ATTENDANTS</th>
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<tbody>
<tr>
<td>North America:</td>
<td></td>
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<tr>
<td>United</td>
<td>116100</td>
<td>29600</td>
</tr>
<tr>
<td>Delta</td>
<td>93600</td>
<td>27600</td>
</tr>
<tr>
<td>TWA</td>
<td>93000</td>
<td>26400</td>
</tr>
<tr>
<td>Northwest</td>
<td>86200</td>
<td>26300</td>
</tr>
<tr>
<td>Pan Am</td>
<td>85600</td>
<td>32300</td>
</tr>
<tr>
<td>Air Canada</td>
<td>76100</td>
<td>25800</td>
</tr>
<tr>
<td>Europe:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Swissair</td>
<td>185500</td>
<td>42400</td>
</tr>
<tr>
<td>KLM</td>
<td>142200</td>
<td>32900</td>
</tr>
<tr>
<td>Lufthansa</td>
<td>135100</td>
<td>45800</td>
</tr>
<tr>
<td>Alitalia</td>
<td>100200</td>
<td>65300</td>
</tr>
<tr>
<td>British Airways</td>
<td>84600</td>
<td>24500</td>
</tr>
<tr>
<td>Asia/Australasia:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>JAL</td>
<td>170600</td>
<td>65200</td>
</tr>
<tr>
<td>Quantas</td>
<td>86400</td>
<td>28900</td>
</tr>
<tr>
<td>SIA</td>
<td>69000</td>
<td>21100</td>
</tr>
<tr>
<td>Malaysia Airlines</td>
<td>50800</td>
<td>16100</td>
</tr>
<tr>
<td>Thai International</td>
<td>35400</td>
<td>8200</td>
</tr>
<tr>
<td>Air India (1987)</td>
<td>29400</td>
<td>10000</td>
</tr>
</tbody>
</table>

Table 2.3: Average Annual Remuneration for Different Staff Categories in Selected Airlines, 1988 (Doganis 1992:133)

According to Doganis (1992: 134), the ultimate cost of labour depends not only on the level of remuneration but also on labour productivity. This depends on institutional and operational factors. Institutional factors include working days per week, basic hours worked per week, length of annual holidays, maximum duty periods for flying staff, among others. Operational factors include the size of aircraft, stage length and frequencies of
operations. The labour productivity in terms of available tonnes kilometres (ATKs) per employee are shown in Table 2.4. The Table shows that in general, European airlines have low productivity even though their wage levels are generally very high. Some airlines namely JAL, Northwest, Pan Am and TWA compensate their high wages with high productivity. Airlines such as SIA with relatively low wages and high productivity have a significant competitive edge over their rivals. Some very low wage airlines such as Air India which were said to be overstaffed have relatively very low productivity.

<table>
<thead>
<tr>
<th>REGION/AIRLINE</th>
<th>PRODUCTIVITY (ATKs ('000) PER EMPLOYEE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America:</td>
<td></td>
</tr>
<tr>
<td>Northwest</td>
<td>424</td>
</tr>
<tr>
<td>Pan Am</td>
<td>403</td>
</tr>
<tr>
<td>TWA</td>
<td>361</td>
</tr>
<tr>
<td>United</td>
<td>328</td>
</tr>
<tr>
<td>American</td>
<td>302</td>
</tr>
<tr>
<td>Air Canada</td>
<td>253</td>
</tr>
<tr>
<td>European:</td>
<td></td>
</tr>
<tr>
<td>Air France</td>
<td>261</td>
</tr>
<tr>
<td>KLM</td>
<td>258</td>
</tr>
<tr>
<td>Lufthansa</td>
<td>254</td>
</tr>
<tr>
<td>British Airways</td>
<td>231</td>
</tr>
<tr>
<td>Alitalia</td>
<td>207</td>
</tr>
<tr>
<td>Swissair</td>
<td>191</td>
</tr>
<tr>
<td>Asia/Pacific:</td>
<td></td>
</tr>
<tr>
<td>JAL</td>
<td>582</td>
</tr>
<tr>
<td>SIA</td>
<td>494</td>
</tr>
<tr>
<td>Cathay Pacific</td>
<td>429</td>
</tr>
<tr>
<td>Quantas</td>
<td>365</td>
</tr>
<tr>
<td>Thai International</td>
<td>208</td>
</tr>
<tr>
<td>Air India</td>
<td>124</td>
</tr>
<tr>
<td>Pakistan International</td>
<td>102</td>
</tr>
</tbody>
</table>

Table 2.4 Labour Productivity, 1988 (Doganis 1992 : 135)
2.3.3 Market/Service Efficiency

Market or service efficiency is also necessary for successful operations. An airline would have a number of aircraft with a capacity of a given number of available seat kilometres (ASKs) or available tonne kilometres (ATKs). From its operations, an airline would produce a given number of revenue passenger kilometres (APKs) or revenue tonne kilometres (PTKs).

The relationship between the output (say RPKs) to the inputs (ASKs) would give the load factor or a measure of market efficiency.

The average load factors achieved by an airline should be adequate in order to result in profitable operations. If the market served by an airline is not large enough to achieve adequate load factors, it may be necessary to reduce the frequency of services or the capacity available, for example, by selling or leasing some aircraft. Alternatively, the market size could be increased through marketing of an airline’s services. In this case, the marketing mix could emphasize the no frills, low cost nature of the product thereby attracting the price sensitive segment of the market.

a. Cost and Revenue

Being a low cost leader does not necessarily guarantee success. An airline must be able to generate unit revenues which are greater than unit cost. For example Wardair, one of the lowest cost airlines in the world (see Table 2.5) made a loss in the
1988 financial year because it could not generate sufficient revenues to cover the low costs. Some high cost airlines, on the other hand, such as Swissair and SAS with unit costs of about five times that of Wardair, achieved profitability by generating sufficiently high unit revenues greater than the high unit costs.

<table>
<thead>
<tr>
<th>AIRLINK</th>
<th>COST PPH ATLs (US$)</th>
<th>REVENUE ATLs (US$)</th>
<th>OPERATING PROFIT (LOSS) (US$ MILLION)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wardair</td>
<td>0.219</td>
<td>0.21</td>
<td>(69)</td>
</tr>
<tr>
<td>SIA</td>
<td>0.31</td>
<td>0.378</td>
<td>395</td>
</tr>
<tr>
<td>Cathay Pacific</td>
<td>0.323</td>
<td>0.423</td>
<td>469</td>
</tr>
<tr>
<td>Air India</td>
<td>0.342</td>
<td>0.363</td>
<td>48</td>
</tr>
<tr>
<td>VARIG</td>
<td>0.361</td>
<td>0.344</td>
<td>(69)</td>
</tr>
<tr>
<td>American</td>
<td>0.392</td>
<td>0.433</td>
<td>801</td>
</tr>
<tr>
<td>Thai International</td>
<td>0.395</td>
<td>0.49</td>
<td>275</td>
</tr>
<tr>
<td>Pan Am</td>
<td>0.402</td>
<td>0.39</td>
<td>(103)</td>
</tr>
<tr>
<td>United</td>
<td>0.413</td>
<td>0.447</td>
<td>689</td>
</tr>
<tr>
<td>Swissair</td>
<td>0.762</td>
<td>0.766</td>
<td>11</td>
</tr>
<tr>
<td>SAS</td>
<td>1.092</td>
<td>1.175</td>
<td>223</td>
</tr>
<tr>
<td>British Midland</td>
<td>1.159</td>
<td>1.237</td>
<td>16</td>
</tr>
</tbody>
</table>

Table 2.5 Operating Results of Some Airlines for the 1988 Financial Year (Doganis 1992: 201).

b. Airline Passenger Yields

The average revenue per passenger, passenger kilometre or passenger tonne kilometre performed is the yield. Doganis (1992: 310 - 315) shows that the yield obtained on a passenger fare is more important than the level of passenger fares. The yield per passenger on a route indicates the break-even seat factor which is the proportion of seats available which must be filled to meet the passenger related costs. If the yield is high the break-even seat factor will be low. Table 2.6 shows passenger yields on scheduled services for selected airlines.
From Table 2.6 the wide variation in passenger yields among airlines is apparent. Some Asian airlines such as SIA, Cathay Pacific and Thai International have relatively low yields while some European airlines such as Swissair, Alitalia and Lufthansa have very high passenger yields. Through a combination of low costs with low passenger yields and high load factors,

<table>
<thead>
<tr>
<th>RANK</th>
<th>AIRLINE</th>
<th>YIELD (US$/PTK)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Swissair</td>
<td>1.298</td>
</tr>
<tr>
<td>2.</td>
<td>Alitalia</td>
<td>1.253</td>
</tr>
<tr>
<td>3.</td>
<td>Lufthansa</td>
<td>1.250</td>
</tr>
<tr>
<td>4.</td>
<td>Air France</td>
<td>1.147</td>
</tr>
<tr>
<td>5.</td>
<td>British Airways</td>
<td>1.145</td>
</tr>
<tr>
<td>6.</td>
<td>Japan Airlines</td>
<td>1.133</td>
</tr>
<tr>
<td>7.</td>
<td>Air Canada</td>
<td>0.928</td>
</tr>
<tr>
<td>8.</td>
<td>Northwest</td>
<td>0.824</td>
</tr>
<tr>
<td>9.</td>
<td>KLM</td>
<td>0.823</td>
</tr>
<tr>
<td>10.</td>
<td>American</td>
<td>0.800</td>
</tr>
<tr>
<td>11.</td>
<td>Thai International</td>
<td>0.763</td>
</tr>
<tr>
<td>12.</td>
<td>United</td>
<td>0.761</td>
</tr>
<tr>
<td>13.</td>
<td>Cathay Pacific</td>
<td>0.757</td>
</tr>
<tr>
<td>14.</td>
<td>TWA</td>
<td>0.732</td>
</tr>
<tr>
<td>15.</td>
<td>Pan Am</td>
<td>0.722</td>
</tr>
<tr>
<td>16.</td>
<td>Quantas</td>
<td>0.721</td>
</tr>
<tr>
<td>17.</td>
<td>Air India</td>
<td>0.673</td>
</tr>
<tr>
<td>18.</td>
<td>SIA</td>
<td>0.602</td>
</tr>
</tbody>
</table>

Table 2.6 Passenger Yields on Scheduled Services, 1988 (US$ per PTK Performed (Doganis 1992 : 311)

profitability can be achieved. Doganis (1992 : 310 - 311) gives an example of SIA to illustrate this fact. SIA has very low passenger yields which are less than half of that of Swissair, Alitalia and Lufthansa while its load factor for 1988 was 73 per cent which was significantly higher than the high yield European airlines. SIA's low costs plus high load factors ensured that the Airline achieved high profits. The low passenger fares
charged by SIA resulted in the increase in demand for its services and hence high load factors.

c. Yield Management

Airline yields are not just related to the fares charged but to several factors. The yield per passenger on a given route depends on the traffic mix, that is, the number of passengers travelling on different fares (Doganis 1992: 312). The traffic mix need to be efficiently and effectively managed so as to maximise revenue through the technique of yield management. The technique of yield management involves managing the airline's seat capacity (balancing the number of discount and standard fare reservations), in order to achieve maximum revenue on a given departure. This is achieved by satisfying as many of a given travel market segment as possible.

In a very competitive market, there could be temptation for a low cost airline to discount its fares in order to achieve high load factors, thereby beating the competition in terms of price. As pointed out above, the discounted fares ought to cover the low cost for success. There is, however, a danger that if too many seats are sold at low fares, the yield or revenue per passenger will decline. Some standard or full fare paying passengers may be diverted to the low fares, thereby reducing revenue. It is, therefore, necessary to limit revenue dilution by effective yield management through pricing mechanism and seat inventory management. To minimise revenue dilution through diversion of
full-fare to low fare traffic, restrictions would need to be imposed on discounted fares. These include restrictions on booking and purchase requirements, days of travel, minimum or maximum periods of stay as well as cancellation penalties.

To effectively employ the technique of yield management, large amounts of information need to be captured, stored and processed from the reservation systems, revenue accounting system, airport departure control system and other sources. Top management need to take a leading hand in ensuring or facilitating cooperation among the various airline departments. Another key requirement of yield management is the accurate forecasting of total demand broken down into the different market segments or fare classes. Sophisticated analytical techniques may be employed using computers.

Revenue enhancement is critical and very beneficial to an airline since an increase in revenue is accompanied by only a marginal increase in expenses. Yield management is an important component of the cost leadership strategy.

2.3.4 Cost efficiency

Cost efficiency is achieved by having the lowest possible cost for a given level of output in terms of the technical output (seat or tonne kilometres) at a given level of customer service and the market output/income (passenger or tonne kilometres). It is necessary to continuously seek for cost reduction without sacrificing acceptable
quality of service and the essential features of the airline product. All elements of strategy would be aimed at contributing to sustainable cost efficiency. The key to competitive success is to manage costs down consistently every year in all areas of the business (Porter 1985b: 66-67).

Being a low cost airline will invite reaction or imitation by competitors who will take steps to erode the airlines' competitive advantage. It is, therefore, necessary to continuously look at areas to cut costs. Described below are various areas which airlines need to look at to minimise costs.

a. Fuel Costs

Costs can be minimised by careful control on fuel costs. Fuel costs are often a significant proportion of total costs. One way to minimise fuel costs is by using the more modern, fuel efficient aircraft. This could be achieved by the replacement of some three or four engined ageing aircraft such as the Boeing 707s, DC-8s or DC-10s with modern twin engined aircraft such as the Boeing 767s where possible. However, capital costs of new aircraft tend to be significantly higher requiring management to carefully plan the operations of their fleet so as to take advantage of the lower operating costs through greater aircraft utilisation.

Fuel costs can also be contained by reducing or avoiding, wherever possible, the uplift of fuel from expensive airports.
It is necessary to avoid carrying unnecessary fuel, that is, carrying more fuel than is required to meet minimum safety needs for a given sector. Also, lighter equipment can be used in the cabin as well as less paint on the aircraft to reduce weight. Computerised flight planning need to be employed for selecting the optimum aircraft speed for a given sector. Higher/lower speed than optimum results in higher fuel consumption. Lower speeds than optimum would result in reduced hourly productivity (product of payload and speed). Computerised flight planning would also assist in choosing the optimum rates of climb or descent and cruise altitudes.

b. User Charges

Management often have little or no control over some user charges such as airport charges, en route navigation charges, fuel prices and wage levels. However, airline management may be able to persuade their governments or domestic airport authorities to give them preferential treatment on such charges as airport or en-route navigation charges.

c. Aircraft Size, Speed and Range

The types of aircraft used and their characteristics affect costs. With respect to aircraft size, in general, the larger an aircraft, the lower will be its direct operating costs (DOC) per unit of output, that is, per available tonne-kilometre (ATK) or seat-kilometre as shown in Figure 2.3.
The reason for this is that larger aircraft can take larger and more efficient engines and have proportionately more payload and lower drag per unit of weight. Also the cost of aircraft maintenance does not increase proportionately with size.

Economies can also be realized in flight crew costs since generally the larger aircraft and the smaller aircraft would often have the same crew numbers, although the flight crew who fly larger aircraft may be paid more. However, larger aircraft like the Boeing 767 or DC-10s normally incur higher total round-trip costs for same sectors than smaller aircraft of the same generation like the Boeing 737s. There are several reasons for this which include the following (Doganis 1992 : 144 - 147):

(i) Crew members of the larger aircraft tend to be paid more than for a smaller aircraft.
(ii) The larger aircraft, because of its greater weight, would consume more fuel and oil than the smaller aircraft of its generation.

(iii) The landing fees and en route navigation charges of an aircraft are related to its weight.

Larger aircraft often have an added cost advantage in flying at a higher speed due to increased hourly productivity (product of payload and speed). Although lower aircraft speed result in lower fuel consumption, the larger aircraft flying faster would result in the cost advantages of size and speed reinforcing each other with the resultant lower tonne-kilometre or seat-kilometre costs.

Figure 2.4 shows how aircraft size, speed and range determine an aircraft's productivity curve and consequently its unit costs. The average speed is calculated on the basis of block time for the sector, block time being from engines on at start of journey to engines off on completion of journey. The average speed increases with increase in sector length. An aircraft may spend most of its airborne time on climb or descent on short sectors, with sometimes only a few minutes at altitude resulting in lower average block speed. An increase in stage length would result in an increase in average block speed as a result of more time being spent at cruising speed while climb, descent and manoeuvre time on ground becomes a small proportion of block time.
Figure 2.4(a). Payload—Range

Figure 2.4(b). Hourly Productivity

Figure 2.4(c). Unit Costs

(Source - Doganis 1992: 150)
Figure 2.4 (a) shows that payload capacity, that is, maximum take-off weight (MTOW), is a constant at first up to the range at maximum payload, representing the distance for which the aircraft was designed. Beyond this the aircraft substitutes fuel for payload until the fuel tanks are full at the point ‘payload at maximum range’, the effective maximum range of the aircraft. The payload line at maximum range is sloping since the aircraft, being lighter having consumed some fuel up to that point, consumes less fuel per hour.

Figure 2.4 (b) shows that the increased average speed results in an increase in hourly productivity until the point ‘range at maximum payload’ is reached. Beyond this point, hourly productivity falls due to the fall in payload even though the average speed may still be rising slightly.

Figure 2.4 (c) shows that unit costs decline with increase in range and hourly productivity until the point ‘range at maximum payload’ is reached. This is because costs which are constant in hourly terms such as depreciation and flight crew costs are spread over more units of output. Beyond the ‘range at maximum payload’, unit costs progressively rise as productivity drops, resulting in the U-shaped curve shown in Figure 2.4 (c) (Doganis 1992 : 150 - 151). The precise shape and level of the curve depends on each particular aircraft type depending on its size, speed and range characteristics.
Therefore, for each aircraft type, assuming that total costs per hour are constant for each sector length, it is possible to compute a range of distances over which its unit costs are uniformly low which represents its optimum cost range.

However, although low costs would be achieved as described above by using large aircraft, longer stage lengths and higher average speed, this ideal situation may not be realized in practice.

Bilateral air services agreements between countries often dictates the routes served and therefore the stage lengths. The characteristics of the route may preclude the use of larger aircraft. For example, thin routes between some capitals may necessitate the use of smaller aircraft or even disposing of some aircraft if there is overcapacity in order to achieve adequate load factors as well as meeting the needs of the market in terms of frequency of services.

d. Aircraft and Crew Utilization.

Significant cost savings can be achieved through optimum crew and aircraft utilization. Aircraft are very expensive equipment which only earns revenue and pay back its initial capital when flying. The more flying being undertaken the less the total costs per unit. This is because standing annual charges such as for depreciation, insurance and crew salaries are spread over a greater number of productive hours. It is much easier to keep aircraft in the air for longer hours per day if the stage length
is longer. In fact, certain maintenance costs are related to flight cycles, that is, take-offs and landings. One example is undercarriage servicings which would tend to be higher for aircraft flying short stage lengths due to the frequent landings compared to aircraft flying longer stage lengths.

An airline with a high frequency of service has greater flexibility in scheduling and planning and, therefore, allow an increase in aircraft and crew utilisation.

e. Sales, Ticketing and Passenger Handling

Cost of sales, ticketing and handling passengers are related to the number of passengers rather than the distances the passengers travel. Therefore, an airline is better off serving few passengers travelling long distances than many passengers on short journeys.

2.3.5 Porter’s Competitive Forces

Porter (1985 : 58 - 65) describes the five forces which are used to examine the competitive environment of an organisation namely threat of new entrants, threat of substitute products or services, bargaining power of suppliers, bargaining power of buyers and competitive rivalry of existing firms. Being a low - cost airline offers attractive advantages for an airline to defend itself against Porter’s five competitive forces. An airline with lower costs would find it easier to defend itself against potential new entrants by
making it difficult for the new entrant into the market to compete effectively on price. The low cost airline would be in a more advantageous position to cut prices to defend against attractively priced substitutes than rival organisations. The high volume of the low cost firm will give it enhanced bargaining power against suppliers. The low cost airline can defend itself against strong buyers of its services since prices are very unlikely to be bargained below the survival level of the next most efficient airline. The higher efficiency of the low-cost airline protects it from any possible increases in input costs.

2.3.6 Risks of Cost Leadership Strategy

An airline adopting a cost leadership strategy needs to guard against a number of risks (Miller 1990 : 37 - 38). The benefits of low-costs may be short lived if competitors can imitate the cost leader's low cost strategy. Technological breakthroughs can result in major cost reductions which nullify previous efficiency gains and past investments. As a result of a cost saving technological improvement, it may be necessary to scrap existing equipment which can prove to be very expensive. Cost leadership requires the airline to be the overall cost leader to avoid intense competition and poor profit performance as a result of airlines fighting to be the cost leader. There is also a danger that consumers may shift from being price sensitive to being willing to pay a premium price for a higher quality of service. An airline which is committed to the low cost strategy may find it difficult to easily and quickly respond to the changing consumer tastes.
2.3.7 Summary

The cost leadership strategy entails the provision of airline services at costs that are consistently below those of competitors which allows them to earn reasonable profits or return on investment at prices that would cripple their competitors. The strategy requires production efficiency, market/service efficiency and cost efficiency to be realized. Production efficiency is achieved through the efficient utilisation of human resources and the costly capital equipment in the airline inventory. Market/service efficiency is realized through an airline having adequate load factors or adequate yields through the effective employment of the technique of yield management. Cost efficiency is achieved by having costs that are lower than those of competitors. Being a low cost airline enables it to defend itself against Porter’s five competitive forces.

2.4 Differentiation Strategy

2.4.1 General

A differentiation strategy entails the ability to offer customers something different from competitors. This involves providing many service variations, wide selection of services on offer and a strong emphasis on the chosen differentiating features. The marketing emphasis is on building in whatever service features buyers are willing to pay for (Porter 1985:67-68). Since differentiating involves extra costs, a premium tariff is charged to cover the extra costs.
2.4.2 Sustaining the Strategy

A differentiating strategy is sustained by communicating the points of difference in credible ways. To stay ahead of imitative competitors, it is necessary to stress constant improvement and being innovative. The airline can concentrate on a couple of key differentiating features and using them to create a reputation and brand image. The strategic target will be a broad cross-section of the market.

2.4.3 Scope for Differentiating Services

Traditionally, under the International Air Transport Association conditions of service, the airline service was fairly homogenous (Doganis 1985:20). For example, there were regulations governing the seat pitch, the quality of drinks served in the aircraft and in-flight catering.

2.4.4 Employment of the Differentiation strategy by Asian Airlines

Doganis (1985:39) explains how some Asian airlines have managed to achieve excellent performance through differentiating their services by offering a high quality of customer service. Airlines such as Thai International, Singapore International Airlines (SIA) and Korean Airlines (KAL), who were non-IATA carriers in the 1970s, captured market share on regional and long haul markets. This was achieved by offering much higher levels of in-flight service than was
permitted under IATA's "conditions of service" or, less frequently, through their greater flexibility in pricing.

Doganis (1985:124) illustrates cabin service standards by the number of cabin crew used. The minimum number for an aircraft type is imposed by safety regulations. A carrier can use any number it deems fit above the minimum. Airlines have more scope to differentiate their services on long haul sectors. One aspect of inflight services may be more cabin staff. In 1983, SIA were said to have operated their Boeing 747s with eighteen cabin staff when the minimum required was eleven. Cathay Pacific and Malaysian Airline System had seventeen cabin crew on their Boeing 747s. Philippine Airlines had fifteen. Cabin crew wages for the Asian carriers were relatively low by international standards and hence the extra cost of improving in-flight cabin service was not high. It would be costly for high wage airlines such as European and American ones to compete in terms of cabin staff numbers.

The high quality of service by Asian carriers, among other reasons, was reflected in high growth rates compared with World averages. Doganis (1992:8-9) showed that for annual growth rates in terms of international traffic in the period from 1978 to 1988, Asian and Pacific airlines were well above the World average. Some airlines within this region had exceptional growth rates on international traffic. Examples given were Cathay Pacific with annual growth of 18 per cent, and Malaysia Airlines with 15 per cent. During this period, in terms of both international and domestic tonne-kilometres
performed, European and African airlines experienced lowest growth rates of 4.8 per cent.

Doganis (1992 : 8-9) shows how the rapid growth of Asian airlines completely changed the structure of the international airlines industry. In 1973, about 75 per cent of international air traffic was generated by European and North American airlines. However, by 1988, this dominant position had been significantly reduced to where their joint share was just over 55 per cent. Asian and Pacific carriers more than doubled their share from 14 per cent to 29 per cent of the world's international traffic during the same 15 year period.

Asian carriers such as SIA and KAL managed to capture significant market share by not being members of IATA. As non-IATA members, they could differentiate their services by offering a much higher quality of in-flight services than was allowed under IATA's "conditions of service". IATA members had to comply with strict regulations relating to, among other things, meals, bar-service, free gifts and entertainment resulting in more or less uniform service. Non IATA airlines, on the other hand, could differentiate their services by offering a high a quality of in-flight services including a wide variety of meals, drinks, free gifts and entertainment.

An airline can differentiate itself from others by being usually the first to introduce new aircraft types or by operating very modern aircraft. Most airlines depreciate their new aircraft over a period of about 16 years to a zero residual value. For SIA, the estimated life of their aircraft is 5-6 years although this has sometimes been
changed to 5-8 years to a zero residual value (Doganis 1992 : 166-169). The purpose of the short depreciation periods by international standards was for SIA to build up reserves from the depreciation charges to finance the rapid renewal of their fleet so as to differentiate themselves from other airlines in order to remain the market leader and to camouflage the large profits the airline was making.

2.4.5 Dealing with Competitive Forces

A successful differentiation strategy creates lines of defence against Porter's five competitive forces as discussed below (Dobson & Starkey 1993 : 60). It creates a barrier to new entrants due to customer loyalty and uniqueness. It shields the airline from intense price competition within the industry since customers would be willing to pay a premium for a superior quality of service. The threat from substitutes is minimised as a result of loyalty of customers. The bargaining power of buyers is also minimised since there are no service alternatives which would be attractive to the customers. The airline would be in a strong position to bargain with suppliers because of its premium prices/fares and its eminent position in the market. The airline should be in a position to achieve superior profitability as a result of its ability to defend itself against competitive forces.
2.4.6 Risks of Differentiation

There are some risks in adopting a differentiation strategy which airlines should guard against (Miller 1992: 37 - 38). Competitor airlines may copy the differentiating features of the airline to such an extent that customers may not be able to distinguish between the services. Constant product/service improvement and innovation, which may be necessary to maintain or sustain competitive advantage, may be very costly and may be very counter productive when followers can imitate quickly and more cheaply. The extra costs of adding sufficient service features to differentiate an airline from its rivals may result in the price being too high that customers opt for cheaper airlines. Buyers may also shift their preferences over time from a differentiated service to a low-cost no frills service. Airlines focusing on niche markets may capture market share from a broad-based differentiating airline.

2.4.7 Overcoming Risks of Differentiation

The extent to which an airline can successfully differentiate its services and overcome the risks inherent in differentiation depends on the skills and competencies available to it which its rivals cannot easily match because of their novelty or quality. Sustained competitive advantage is likely to arise from a high quality of customer service so that the customer perceives that he is getting more value for money.
The differentiation strategy can be successfully employed in the airline industry since there are many ways to differentiate the product/service and these differences are recognised by consumers to have value.

2.4.8 Summary

A differentiation strategy involves the provision of airline services that are different from those of competitors and are difficult to imitate because of their quality, innovativeness, or image. The strategy would be targeted on a broad cross-section of the market. With the advent of deregulation, there is now plenty of scope for airlines to differentiate their services. Some non-IATA airlines such as SIA, KAL and Cathay Pacific gained considerable market share in international services as well as profitability by offering a high quality of service above that stipulated under IATA's conditions of service, demonstrating the viability of the differentiating strategy.

2.5 Focus Strategy

2.5.1 General

In a focus or specialisation strategy, the strategic target is a narrow market niche where the customer needs and preferences are distinctively different from the rest of the market (Porter 1985 : 66-69). The airline adopting this strategy would gain a competitive edge by concentrating on a particular group of customers or limited geographical market. The airline may have lower costs than
competitors in serving the niche, or alternatively, they can offer
niche customers something customised to their requirements and tastes.

According to Porter (1985: 68) there are two variants of the
focus strategy namely cost focus and differentiation focus. In a cost
focus, an airline would seek a sustainable cost advantage in its
target segments. In this case, an airline would take advantage of
differences in cost behaviour in some segments which are poorly
serviced by competitors who broadly target the market. An example of
an airline adopting this strategy is Virgin Airways in low-cost, no
frills transatlantic operations.

In a differentiation focus, an airline would seek to
differentiate its services from competitors in target segment. The
airline in this case exploits the special needs of customers in the
target segment. Scandinavian Airline system, discussed in detail in
chapter 3, successfully adopted this strategy in the 1980s.

The focus strategy relies for its success on differences between
the airline's target segments and other segments in the airline
industry. The target segments often have customers with unique or
unusual needs or the quality of service must differ from that of other
industry segments. An airline would gain a competitive advantage by
focusing exclusively on the target segments. The methods are very
much similar to the broad-based differentiation and cost-leadership
strategies discussed in sections 2.3 and 2.4 above.
2.5.2 Attractive Markets for Focus Strategy

Adopting the focus strategy is attractive and likely to be successfully employed in the following markets (Dobson & Starkey 1993 : 61):

a. Where airline's resources do not allow it to operate across a wider market.

b. When the market segments are distinctly different and differ markedly in terms of size, profitability, intensity of competitive forces and growth rates.

c. When no other rival airlines are attempting to focus on the same market segment.

A successful focus strategy, due to a focused airline's ability to offer unequalled skills and competence in serving the niche, help it to defend against Porter's five competitive forces (Dobson & Starkey 1993 : 62). The focuser's distinctive competence acts as a barrier to entry into the market by rivals as well as substitutes. Possible competitors cannot match the focused airline's ability to serve its customers. Customers are likely to be unwilling to buy services from airlines which are unable to serve their specialised needs thereby reducing their bargaining power.
2.5.3 Risks of Focus Strategy

There are some risks which are encountered by an airline adopting a focus strategy (Miller 1992: 37 - 38). It may be possible for rivals to find some niche markets within the focuser's target segment. The broad range competitor may be able to find an effective way to outcompete the focused airline in serving the target segment. Customer tastes may shift thus leaving the focused airline without a viable market.

2.5.4 Summary

A focus strategy can be used to gain a competitive edge over rivals. There are two variants of the focus strategy namely the cost focus and differentiation focus. In a cost focus, an airline would seek to maintain costs consistently below those of its competitors in its target segment. In a differentiation focus, an airline would seek to provide services that are difficult to imitate because of quality, novelty or image in its target market. A focused airline's distinctive competence and skills help it to defend against Porter's five competitive forces.

2.6 Management

The literature on the contribution of management to the decline and recovery or turnaround of organisations is extensive. The insights on successful turnarounds elsewhere would assist in coming
up with fundamental management steps which may be required to turnaround the unsatisfactory performance of SADC airlines.

2.6.1 Management and Organisational Decline

Research by Bibeault (1992 : 35) on company declines or downturns revealed that about 70 per cent of them were caused by defects in top management team or management errors of omission and commission. Forty five per cent of corporate declines or downturns studied by Bibeault were caused by autocratic management who tried to do everything single handedly but failed in the face of change and complexity. Among the management defects included lack of balanced expertise (for instance, too many accountants or engineers) at the top, tall management structure, poorly planned management succession and lack of participative boards of directors.

Errors of omission reflect the failure by management to put into place proper cost and budgetary controls, to adjust prices timely in line with costs, as well as failure to respond and adjust appropriately to changes in the market place or competitive environment.

Errors of commission were actions taken by management which contributed to a business decline such as over-expansion of products, personnel and facilities beyond the firm’s resources.

A study of company turnarounds in New Zealand by Addison & Hamilton (1988 : 95) also reveal that corporate decline and recovery
are caused by management inaction and action respectively while changes in the external environment played only a minor part. Addison & Hamilton (1988 : 99) cite research by Argenti (1976) which were said to be the first to identify similar or common features of failed companies the main ones of which were autocratic top management, ineffectual boards, the roles to Chairman and Chief Executive Officer combined and a weak finance section. The weakness at the top resulted in other problems such as poor budgeting, lack of management depth and an over-commitment to a big project.

Schendel, Patton & Riggs (1976 : 7) reveal that an interaction of poor managerial decisions or lack of them coupled with adverse environmental events are the cause of most cases of downturn.

Addison & Hamilton (1988 : 100) found that a typical response of top management to a crises is inaction. The reason cited for this was that a crisis situation is characterised by surprise, large threat to important values, and short decision times which result in high levels of stress beyond normal levels which overwhelm the decision making ability of any manager. Poor information systems, complacency, inability to correctly read signals of an impending crisis often results in delays in management reaction to a downturn or crisis.

2.6.2 Management and Organisational Upturn

Studies by Schendel et al (1976 : 8 - 10) showed that organisation and management changes were necessary to ensure successful upturns. Forty-four of the fifty-four firms studied made
such changes. Turnarounds were found to be more due to management actions than to favourable environmental events. A study of successful recovery or upturns in three countries namely the USA, Great Britain and New Zealand by Addison & Hamilton (1988 : 101) showed similarity in these countries that a change in top management was of major importance in the recovery process. Eighty per cent of recovery companies in New Zealand relied on a new Chief Executive Officer to implement the required strategies. The conclusion of this New Zealand study could be more relevant to the SADC situation because of some similarities of some aspects of their economies in that the companies in SADC and New Zealand are smaller (than in the major industrialised countries where most studies of turnarounds have been carried out), less diverse and more vulnerable to external shocks.

Hoffman (1989 : 57 - 60) quotes a number of studies which revealed that strong leadership was the most important factor in successful turnarounds. Successful turnarounds are almost twice as likely to replace their top manager with an outsider rather than an insider. The characteristics and skills of successful turnaround leaders included being growth - oriented and entrepreneurial managers rather than turnaround specialists, experience in the firm's industry or in a variety of industries, self-confidence, task-orientation and the capability to inspire confidence in others. Replacing managers was said to stimulate change through unfreezing current attitudes, breaking concentrations of power and providing an opportunity to view the situation on a new light rather than through mind-set perspectives conditioned by the industry.
The need for a new outside manager to effect a turnaround is also confirmed by Whittington (1991: 25), Finkin (1992: 56 - 58), Cleussen (1990: 103), Hofer (1986: 362) and others. Finkin (1992: 56 - 57) stresses that radical change could only take place under the direction of one leader and not through a consensus reached on the painful steps which need to be taken. The leader would need to have the will and authority to effect drastic psychological and cultural changes within the organisation. Such changes could include dismissing long serving and loyal workers, closing down product lines which had been closely associated with the company name, closing down manufacturing plants which may be closely linked to the economic survival of a community as well as radical changes of policies and procedures.

2.6.3 Establishing a New Corporate Culture

Finkin (1992: 57) defines culture as 'a system of shared beliefs and responses that condition people how to behave in the business environment. The culture of a company is defined by the quality of goods produced, the importance attached to shipping on time, attitudes towards customers and complaints, pricing policies, treatment given vendors, and other factors'. According to Hoffman (1989: 61) and Finkin (1992: 57), organisational culture can be a powerful barrier to turnarounds since it often is submerged in the subconsciousness of employees. Hence the need for new and outside leadership to articulate new values and culture for the organisation. It was estimated to take up to five years for a new corporate culture to completely replace the practices of an old culture. Cultural change would involve inculcating a winning culture which can be effected
through, among other things, outside training, building shared values, open and frank communication. Some changes in the formal organisational structure need to be made to ensure the success of the required cultural change.

2.6.4 Communication

Clausen (1990 : 100), Heyer & Van Lee (1991 : 40 - 45), Finkin (1992 : 57 - 58) and Hoffman (1989 : 61) discuss the need for efficient and effective communication systems for successful turnaround. The communication need to be credible, continuous, consistent and confident both inside and outside the organisation. Inside the organisation, the board of directors need to be convinced about the success of the new turnaround strategies. Effective communication with employees or their representatives is also necessary so that they are informed of the changes required in the organisation and their necessity, how the company will be turned around and to make employees part of the winning team effecting necessary changes for the benefit of all. Employee fears about possible job losses need to be frankly and openly addressed.

The outside organisations which need to be effectively communicated with include lenders, major customers, suppliers and the Government, among others. Lenders need to be convinced that their financial investments are safe. Customers and suppliers need to be convinced to continue doing business with the organisation during its turnaround. The Government is an important constituency if it is a
The major customer of the organisation as well as in passing and enforcing legislation which affect the operations of the organisation.

2.6.5 Summary and Deductions

Management is critical for the success of any strategy. The turnaround strategies, as discussed above, are spearheaded by strong, competent and committed top management who can articulate appropriate strategies for their organisations.

For an airline adopting the cost leadership strategy, the top management would need to cultivate a culture of cost consciousness within the airline. Tight budgetary systems as well as rewarding personnel who excel in coming up with ideas to cut costs all help in the success of the cost leadership strategy. Management would have to set the example by their actions and decisions on the need to minimise costs while maintaining adequate safety standards.

For an airline adopting the differentiating strategy, management must articulate the 'many frills' operating culture, while marketing or promoting the airline on the basis of a superior service. There is need for intensive advertising and selling. Management ought to be innovative by bringing new products with new options to the market. A premium price would need to be changed to cover the added cost of differentiation.

The management of a focused airline need to carefully consider the needs of their target segment and determine whether to employ low
An airline’s personnel are its most important resource. Hence, there is need for SADC airlines to make commitments to human resource development. A safe, reliable, efficient and excellent service can only be cultivated and developed by a dedicated, skilled and diligent workforce. There is need to invest heavily in staff training and development. SADC airlines need to do this so as to ensure that a chosen turnaround strategy is properly implemented.

2.7 The McKinsey 7-S Framework

When an appropriate turnaround strategy is identified some productive changes within SADC airlines would be necessary to ensure that the chosen strategy is effectively implemented. The literature research revealed one conceptual model namely the McKinsey 7-S framework (Jauch and Glueck 1988: 303 - 305), which could be employed to ensure effective organisational change.

According to Waterman, Peters and Phillips (1988: 271 - 273), the 7-S framework (described below) is attractive since it allows consideration of several interconnected factors, not just one or two. They state that any notions of organisation change that ignore its many aspects or their interconnectedness are dangerous. Waterman, et al (1988: 272) quoted an article in Fortune magazine which commented that as many as 90 percent of carefully planned strategies do not
work. Waterman, et al argued that this failure was due to inattention to all the elements of the 7-S model.

From the literature research, no other model could be found which could allow a thorough and comprehensive analysis of the internal environment of an organisation as the McKinsey 7-S framework.

The McKinsey 7-S framework is employed to analyse the internal environment of Air Zimbabwe in particular and SADC airlines in general. This is to determine the strengths and weaknesses of the airlines. It would be necessary to capitalise on the strengths and minimise the impact of the weaknesses or to overcome some of the weaknesses. This would ensure that the organisations' strategies are both practical and feasible.

The McKinsey 7-S framework (Figure 2.5) shows that organisation's effectiveness stems from the interaction of several factors namely strategy, structure, systems, style, staff, shared values (superordinate goals) and skills. All these factors influence an organisation's ability to change and how best it can effect change. All the variables are interconnected and managers cannot afford to ignore any of the factors. If any of the factors is ignored, it can result in the failure of some well planned strategies. None of the variables in the diagram can, therefore, be said to be more important or more critical than the others and to change an organisation at any one particular time, any of the variables could be the driving force or the critical variable.
The components of the 7-S framework are as follows:

a. **Strategy.** Strategy is a coherent set of actions a company plans in order to gain a sustainable advantage over competition, improving its position with respect to customers, achieving sales dominance or allocating resources. In other words, strategy are those actions which an organisation plans either in response to or in anticipation of changes in its external environment which includes the competitive, political, social and economic environments.

b. **Structure.** The structure of an organisation is the organisation chart which shows how tasks are divided up and integrated and shows who reports to whom. The emphasis here is on coordination and the ability to focus on those dimensions which are currently important to the evolution of the organisation.
c. Systems. Systems include all the procedures, processes and flows that shows how an organisation gets things done from day to day, every day of the year. These include management information systems, capital budgeting systems, quality control systems, training systems, cost accounting procedures as well as performance measurement systems. The systems shows one or enables one to understand how an organisation really does get things done. It can enable an organisation to change without disruptive restructuring. Systems changes can powerfully enhance organisational effectiveness without the disruptive side effects that often results when the structure is tampered with.

d. Style. The style of an organisation’s management is the tangible evidence of what management considers important and one element of a manager’s style is how he spends time and use symbolic behaviour. Style is not reflected in what management says is important but on the way management behaves.

e. Staff. Staff are the people in the organisation and all that connected with them such as pay scales, appraisal systems, training of personnel, morale, motivation, behaviour and attitudes. It is useful here not to think of people in terms of individual personalities but about corporate demographics. It is necessary to determine how to develop managers and how to shape the basic values of management. Top performing companies pay a lot of attention to the socialization process of recruits and the management of their careers as they develop into future managers.
f. Skills. Skills are those capabilities that are possessed by an organisation as a whole as opposed to the people in it. Companies tend to be characterized by what they do best such as IBM’s orientation to the market place. It is sometimes necessary to think in terms of current skills since the addition of a new skill may only be possible if the old skill is discarded.

g. Shared Values (Super Ordinate Goals). Shared values are values and aspirations which go beyond the conventional formal statement of corporate objectives. These are often unwritten, but might well include simple goal statements in determining corporate destiny. These values must be shared by most people in an organisation. The shared values bind the organisation together in pursuit of a common purpose.

Hence the McKinsey 7-S model shows the interconnectedness of the variables. An organisation cannot make significant progress in one area without making progress in others as well. For example, inadequate systems and staff can make futile excellent strategies to beat the competition. If one or more area is out of phase with others, this would need to be corrected for the organisation to effectively operate.

2.8 Summary

2.8.1 Cost Leadership Strategy

For an effective cost leadership strategy to be achieved it is necessary for production efficiency to be realized. SADC airlines
need to have efficient and effective airline scheduling to achieve production efficiency. This would ensure that there would be optimum utilization of pilots, flight engineers, cabin attendants and ground personnel in order to minimise costs and maximise profits.

The maintenance plan and schedules would need to be designed to ensure an even flow of maintenance work to achieve efficient utilization of facilities and personnel while also ensuring that the required aircraft are available for services.

Production efficiency also requires cost efficiency in fleet planning which SADC airlines can achieve through limiting the number of aircraft types in their fleets in order to reduce pilot and other flight crew training costs, maintenance costs and costs of spare parts inventories.

SADC airlines need to improve or increase productivity of their employees. They can take advantage of their relatively low wage levels to gain a competitive edge over their rivals.

SADC airlines also need to achieve market/service efficiency for cost effective operations. In this case where the markets served by SADC airlines are not large enough to achieve adequate load factors, it would be necessary to reduce the frequency of services or the capacity available by, for instance, selling or leasing some aircraft. The market size could be increased through effective marketing of SADC airlines' services.
SADC airlines need to earn adequate yields in the various markets served for market/service efficiency to be realized. The airline yield is related to the fares charged and the traffic mix on a given route. SADC airlines can ensure that adequate yields are achieved through the employment of the technique of yield management.

Cost efficiency is also very critical for the success of the cost leadership strategy. SADC airlines need to reduce costs in all areas of airline activities without sacrificing acceptable quality of service and essential features of the airline product. There are several areas which SADC airlines can minimise costs.

Fuel costs are a significant proportion of total airline costs. These costs can be minimised if SADC airlines replace ageing fuel uneconomic aircraft such as the Boeing 707s, DC-8s and DC-10s with more modern fuel economic aircraft such as the Boeing 767s and McDonnel Douglas MD-11s. Fuel costs can also be minimised by reducing or avoiding, wherever possible, the uplift of fuel from expensive airports and avoiding carrying unnecessary fuel. Computerized flight planning need to be employed to ensure that the optimum aircraft speed is selected for a given sector so as to minimise fuel consumption.

SADC airlines may reduce costs of user charges by persuading their governments or domestic airport authorities to give them preferential treatment on, for example, airport or en route navigation charges.
Wherever possible, larger aircraft should be used instead of smaller aircraft in order to benefit from economies arising from the greater size and capacity of aircraft.

Cost efficiency would be realized if SADC airlines were integrated or if they closely cooperated. The airlines would benefit from economies of scale in areas such as aircraft purchasing, spares purchasing, aircraft maintenance and training of personnel.

SADC airlines adopting the cost leadership strategy would find it easier to defend themselves against Porter's five competitive forces. Low costs would make it easier for SADC airlines to defend themselves against potential new entrants by taking advantages of low costs to compete effectively on price. The airlines would be in a position to compete against substitutes of airline services such as road transport in some SADC countries. The higher efficiency of the low cost SADC airlines would protect them from possible increases in input costs such as an increase in fuel prices. The high volume of say purchases of spares or aircraft will give an integrated SADC airline enhanced bargaining power against suppliers.

2.8.2 Differentiation Strategy

A differentiation strategy would require SADC airlines to provide airline services that are different from those of their competitors and are difficult to imitate because of their quality, innovativeness or image. With the advent of deregulation, there is plenty of scope
Some Asian airlines have in the last quarter of a century gained significant market share and profitability through effectively differentiating their services through providing a high quality of customer services which was much better than that offered by their competitors. SADC airlines could also differentiate their services by, for instance, taking advantage of low wage costs to provide a higher quality of in-flight and on-ground services for their customers.

However, to provide a differentiated service requires that SADC airlines carry out extensive marketing research to find out the needs of their customers in the various markets they serve. This would require sophisticated marketing research which may be beyond the capabilities of SADC airlines because of their limited financial and technical resources and expertise compared with their major European and other competitors.

An airline adopting the differentiating strategy would also need to market their services in their various markets they operate or wish to service. This would also require sophisticated and expensive international marketing techniques which are also largely beyond the resources of SADC airlines.

Asian airlines, such as SIA and Cathay Pacific, also differentiated themselves by being innovative and operating a very
modern fleet of aircraft. These airlines had the financial resources to fund the new aircraft acquisitions largely from internally generated funds.

2.8.3 Focus Strategy

A focus or specialisation strategy would involve SADC airlines concentrating their operations on a particular group of customers or limited geographical market. For example, SADC airlines could focus on the business or executive type of customers or the tourist segment. Alternatively, SADC airlines could concentrate their operations within the SADC region or sub-Saharan Africa or just domestic operations. Another option is to focus their operations on intercontinental services.

2.8.4 Policy Changes

It is necessary for SADC Governments to effect policy changes to facilitate the turnaround of SADC airlines. It would be necessary for SADC Governments to give more commercial freedom to the airlines. This could involve governments relinquishing ownership of airlines. Management of the airlines would be able to formulate the appropriate mission of the airline. The airline's mission would give the overall or unique aim of the airline. This should be followed by the objective of the airline which would include the desired end results with specific profit, return on investment or market share required to be achieved by the airline.
The airline management would need to formulate and implement appropriate turnaround strategies for the airline. The strategies would comprise the broad programmes for achieving the airline's objectives and thus implementing its mission.

Such a policy shift would also facilitate the appointment of the right person to lead the airline from the present unsatisfactory financial and economic performance to profitability. Various studies on company turnarounds showed the critical nature of having the right calibre of top management to lead the organisation into profitability.

2.9 Choice of Strategy

A differentiation strategy can be effectively employed by an airline that has good financial and economic performance. This would enable the airline to incorporate unique features, which would be difficult for other airlines to imitate. Because of the poor economic and financial performance of SADC airlines, both the broad-based differentiation strategy and the differentiation focus strategy do not appear to be feasible ideal strategies for SADC airlines.

A cost leadership strategy requires that an airline provides services at costs consistently below those of competitors. From the literature research, it appears that either the broad based or the cost focus strategy would be the ideal turnaround strategy for SADC airlines.
3.0 Conclusions

In this chapter, the possible strategies to turnaround SADC airlines were discussed. These are cost leadership, differentiation and focus strategies. The cost leadership strategy seeks to gain a sustainable cost advantage over competitors. The differentiation strategy seeks to offer customers something different from competitors and then charging a premium tariff to cover the extra costs and obtain adequate yields. The focus strategy rests on the choice of a narrow competitive scope within the airline industry. Management is critical in the formulation and implementation of appropriate turnaround strategies.

It appears that the broad based cost leadership strategy or the cost focus strategy may be the ideal strategies to turnaround SADC airlines. However, this hypothesis will be tested in Chapter 4.

The McKinsey 7-S framework was also discussed. The model explains that for a turnaround strategy to be effectively implemented would stem from the effective interaction of the elements of strategy, structure, systems, style, staff, shared values and skills. The model will be used in chapter 5 to analyse the internal environment of SADC airlines to reveal weaknesses and strengths.
3 CASE STUDIES OF TWO SUCCESSFUL TURNAROUNDS AND A CONSISTENTLY PROFITABLE AIRLINE

3.1 Introduction

In this chapter some airlines which have carried out successful turnarounds, or which have consistently maintained profitable operations are discussed. The objective of studying these airlines is to enable us, based on the ideal strategies for success discussed in chapter 2, to derive practical strategies which were or are being successfully employed. This would assist in coming up with pragmatic turnaround strategies for SADC airlines in the next chapter.

The literature research revealed two successful and remarkable turnarounds by British Airways (BA) and Scandinavian Airline System (SAS) at about the same time, 1981 - 1983 as well as a consistently profitable airline, Singapore International Airlines (SIA). Since third world countries experience broadly similar problems which include underdevelopment, limited foreign exchange, scarcity of skilled labour, among other problems, a successful airline turnaround or a consistently profitable airline for over twenty years could have yielded important lessons which could be adapted for SADC airlines. However, attempts to find successful turnarounds from Africa or any other third world countries proved fruitless.

There are some important differences between SADC airlines and the two European airlines namely BA and SAS. These two airlines are
3.2 British Airways

3.2.1 Background

A remarkable turnaround of British Airways (BA) took place in the early 1980s (1981 - 1983). Prior to this period, BA was Government owned. The Airline operated in a protectionist environment without free and open competition. The air routes were operated through bilateral inter-governmental agreement. Fares were agreed by governments. The airline was making losses.

The operating environment for airlines in general was worsening from the mid 1970s following the oil crisis in 1973/74 which resulted in the price of oil rising steeply. When the Conservative Party led by Mrs Margaret Thatcher came to power in 1979, they planned to privatise BA. The Conservative Party felt that public enterprises...
like BA were less efficient than private enterprises since they would be assured of Government subsidy if they make losses.

3.2.2 Corporate Philosophy

A new chairman, Lord King, was recruited from the private sector to head BA in 1981 (Gabel and Levy 1985: 492). He was tasked with formulating a new corporate philosophy for BA so that it could be profitable and be privatised. Lord King was given the freedom by the Government to effect any changes he deemed necessary to make BA profitable. Some drastic changes were implemented including cutting the workforce from 59 000 in 1981 to 37 000 in 1984. The aircraft fleet was cut by a third to eliminate old high cost equipment. Sixty two uneconomic routes were abandoned. New fuel efficient aircraft were ordered to ensure long term profitability. These include the Boeing 757s and 737s (Gabel & Levy 1985: 506). By 1984, Lord King was claiming that on the basis of operating results, BA was the most profitable airline in the world. By March 1987, BA was fully privatised. Since 1984 BA has consistently maintained profitability.

Lord King believed that it was necessary to have clear and challenging goals to ensure that BA thrives in a dynamic and complex operating environment. The airline’s mission and goals are listed in the British Airways Plc Annual Report and Accounts 1992 - 93 (on the cover). BA’s mission is ‘To be the best and most successful company in the airline industry’.
The airline's goals are listed as follows:

a. To be a safe and secure airline.

b. To deliver a strong and consistent financial performance.

c. To secure a leading share of air travel business worldwide with a significant presence in all major geographical markets.

d. To provide overall superior service and good value for money in every market segment in which we compete.

e. To excel in anticipating and quickly responding to customer needs and competitor activity.

f. To sustain a working environment that attracts, retains and develops committed employees who share in the success of the company.

g. To be a good neighbour, concerned for the community and the environment.

3.2.3 Mega Carrier

BA acquired British Caledonian for 250 million pounds sterling in December 1987 and the merger was completed by 1988 (Marshall 1992: 31). The acquisition of British Caledonian was aimed at ensuring that BA was a stronger major international airline for Britain. This
would allow BA to withstand competition from 'mega-carriers' in the USA, Europe and elsewhere.

British Caledonian had several attractive features which complemented BA. The Airline had an extensive domestic and international route network which included markets not served by BA in Africa and the Middle East (Doganis 1992: 99). British Caledonian was the largest operator from Gatwick Airport in London where it had about a quarter of the runway slots. This effectively allowed BA to consolidate its dominance of the UK domestic market.

### 3.2.4 Global Alliances

In 1978 there was deregulation of the domestic airline industry in the USA (Doganis 1992: 52). Numerous airlines were formed but they collapsed after a short period of existence. By 1989, the six largest USA airlines were responsible for 84 per cent of the domestic passenger-kilometres generated (Doganis 1992: 95). This experience showed BA and other airlines the importance of size for success due to economies of scale and marketing benefits of scope. An airline had to actively participate in most markets to be successful.

BA appreciated the importance of size as discussed in section 3.2.3 above. Hence the merger with British Caledonian. BA also bought 40 per cent stake in Brymon Airways, a UK regional airline, in 1987 (Doganis 1992: 97 - 99). Having consolidated their dominance in the UK, BA embarked on a strategy of setting up worldwide marketing
alliances with United Airlines in the USA in 1987. In 1990 BA bought a 20 per cent stake in Sabena World Airlines.

3.2.5 Customer Service

Up to the early 1980s, British Airways like other European operators had operated under highly regulated and controlled markets (Doganis 1992 : 95). By mid 1980s, European markets began the process of relaxing regulations. With the removal of regulations there arose more opportunities for product differentiation.

As discussed in Section 3.2.2, BA is committed to a high quality of customer service as well as commitment to attracting and retaining the best staff to ensure the implementation of its goals. By implementing this commitment, the Airline has managed to successfully outcompete its rivals in various markets, allowing BA to achieve an upturn from the loss making situation in the early 1980s to achieve its goal of strong and consistent profitability since then to the present.

3.2.6 Financial Performance

When the British Government announced its intention to privatise BA, the airline industry was in a recession (Marshall 1992 : 26 - 29). Industry estimates for 1980 showed that the overall airline losses would be US$2.6 billion. The industry's cumulative losses since 1979 then totalled US$6.2 billion. Airlines like Delta, Eastern, Pan Am, American, Japan Airlines, British Airways and British Caledonian were
making losses. The airlines had also been hit by a costly air traffic controllers' strike and a 52 per cent increase in air traffic control costs.

By 1982 BA was technically bankrupt with losses of 544.8 million pounds sterling. Part of the loss was due to severance packages resulting from massive reduction of personnel as discussed above.

In the five years ended 31 March 1987 when BA was fully privatised, the Airline earned 1100 million pounds sterling in operating surpluses and more than 800 million pounds in pre-tax profits. Borrowings were reduced from 1000 million pounds sterling to less than 300 million pounds sterling (Marshall 1992:29). BA has consistently maintained profitability since then. For example, in the 1991-92 and 1992-93 financial years, the profit after tax was 395 and 178 million pounds sterling respectively. This was at a time when the vast majority of airlines all over the world were making losses (British Airways plc Report and Accounts 1992-93:1).

3.2.7 Summary

Various reasons were attributed to the successful turnaround by BA. In Lord King, there was a leader who had the capabilities, the vision, the personality and the leadership style to be able to take bold steps to make a remarkable turnaround under unfavourable operating environment. Some painful sacrifices in terms of job losses had to be made and this was achieved without major industrial relations disruptions.
One of the major strategies adopted was to make major cost reductions. All areas of airline activity were examined and cost cuts were effected wherever possible. Major areas were in manning levels, fleet and route rationalisation and achieving economies of scale by having a large airline.

BA took advantage of its strengths of a dedicated workforce, an extensive route network; the status of London as the world's most important air transport hub; committed, motivated and competent top management and the soundness of its balance sheet while overcoming some of its major weakness as a high cost airline. It overcame some of the threats from "mega-carriers" from the USA, Europe and elsewhere by merging with British Caledonian while taking advantage of opportunities created in the increasingly deregulated operating environment.

By being a large airline, BA took the opportunity to try and differentiate its services from competitors. The Airline carries out extensive advertising in all its markets using a variety of channels such as television, magazines, radio and posters. The Airline uses this to promote its corporate image of an efficient Airline with a high quality of customer service. Certainly, by employing an extensive and efficient computer reservation system, automatic ticketing systems, modern aircraft fleet, efficient and helpful airline staff, excellent in-flight entertainment, good food and variety of drinks and other service features, the Airline is highly rated all over the world as evidenced by its excellent performance.
The Airline appears not to have focused on any particular market segment such as the business traveller or the tourist/leisure market. They compete in all the market segments. This appears to give the Airline flexibility and room for manoeuvre. For example, the tourist market is sensitive to the economic situation in a country, region or the world. In times of recession, there tends to be a significant drop in tourism. Hence, if an airline focused its strategy in serving the tourist market, it may be faced with over capacity and most likely will be forced to charge uneconomic fares due to the low fares being offered by competitors during a recession or depression.

3.3 Scandinavian Airline System (SAS)

3.3.1 Background

SAS is a regional airline owned 28.57 per cent by Denmark, 28.57 per cent by Norway and 42.86 per cent by Sweden. In each of the countries namely Denmark, Norway and Sweden, SAS’s shares are owned by the respective State and private shareholders who each own 50 per cent of the Airline’s shares (SAS Annual Report 1992 : 21). In the early 1980s (1980 - 1983) the Airline was incurring losses. The Airline experienced a remarkable turnaround spearheaded by its Managing Director, Jan Carlzon. In this section is examined the performance and strategies pursued or implemented by the Airline from the period of its turnaround to the recent past (about 1993).
3.3.2 Corporate Philosophy

SAS's corporate philosophy and objectives were articulated by the Managing Director, Jan Carlzon. He articulated his vision to make SAS the best airline in the world for the frequent business traveller. He exploited the fact that business travellers fly more consistently than other travellers and are in general prepared to pay higher fares. By focusing on business customers and providing a high quality of service in this market segment enabled SAS to earn high profits, obtain steady business and achieve high growth (SAS Annual Report 1992: 1, 9).

3.3.3 Mega Carrier

While successfully carrying out its remarkable turnaround in the early 1980s, SAS was aware of the changing operating environment brought about by deregulation. Following deregulation in the USA domestic services in the late 1970s, as mentioned before, several airlines sprang up but were liquidated within some few years leaving the United States market dominated by some few mega carriers. SAS had predicted that with deregulation spreading to Europe, by mid 1990s, the European airline industry would also be dominated by some few mega carriers providing services on several markets (SAS Annual Report 1992: 4, 8).

SAS heeded lessons from developments in the USA in the 1980s which showed that an airline needed a strong domestic market to ensure long term survival (SAS Annual Report 1992: 8 – 9). For example, Pan
Am and TWA, two major USA carriers at the beginning of the 1980s operated in the regulated international markets with a weak home base. TWA was reported to be facing difficulties whilst Pan Am was liquidated. On the other hand, airlines with a strong home base such as United, Delta and American Airlines successfully serviced the intensely competitive USA domestic market. However, SAS has a weakness of having a limited passenger base in Scandinavia. Hence the goal of the Airline discussed earlier to maintain a strong market lead on domestic and inter-Scandinavian routes.

Since mid 1980s, SAS started approaching airlines in Europe seeking various forms of cooperation so as to become a strong force to challenge mega carriers from America and Asia (SAS Annual Report 1992 : 8). The Airline has since bought shares in several airlines worldwide or made marketing alliances. One example is the European Quality Alliance between Swissair, Austrian and SAS, an association of airlines providing, or renown for, high quality service in the business market segment. SAS has also cooperative arrangements with Airlines of Britain, Continental Airlines, Lan Chile, Spanair (charter), Finnair, Wideroe, ANA, Thai International, Scanair (charter) and International Canadian (Doganis 1992 : 96 - 97).

According to SAS Annual Report (1992 : 11) SAS is the third largest airline in Europe after British Airways and Lufthansa, measured in terms of the numbers of flights. This shows the success of the Airline’s goal of being among the top five airlines in Europe by 1995 mentioned earlier.
3.3.4 Quality of Customer Services

One of the most remarkable turnarounds ever achieved was by SAS in just three years in the midst of the 1981-83 recession (Peters and Austin 1985:77). This was achieved by employing a combination strategy of focusing on the business sector of the European air travel market and also differentiating its services from competitors in its chosen market segment.

To differentiate its services, SAS had to firstly undertake market research to find out what the needs of the business market were. They found that, among other things, instead of costly new aircraft, all SAS needed was to repaint their existing aircraft in more aesthetically appealing colours, redecorate and making aircraft interiors clean or spotless as well as providing a convenient, reliable, safe and punctual service. The Airline intensified customer service training (Peters and Austin 1985:78).

Doganis (1992: 261) also discusses some surveys done by SAS in the early 1980s to find out what its passengers perceived as the most important for them in choosing a flight when making their reservations. More than two thirds of those surveyed stated that departure/arrival times were very important and also two thirds stated that non-stop direct flights were also very important. Other factors were found to be unimportant in influencing a passenger's choice. A mere three per cent stated that aircraft type was an important consideration in their decision. As a result of these surveys SAS discontinued using their new A300 Airbuses in 1982 and instead
concentrated on using much smaller aircraft with less than half the number of seats on the A300 Airbus namely the DC-9s and later the MD 81s and MD 82s. The smaller aircraft enabled SAS to meet the needs of their customers for higher frequencies. It also allowed the Airline to operate direct non-stop services on thin routes where the Airbus would have been uneconomic. The result of employing such a strategy is high unit costs (Table 2.5). However, the Airline could attract high yield passenger (higher unit revenues) resulting in profitability.

SAS Annual Report (1992 : 11 - 12) reveal that the core of the Airline's traffic is the dense feeder network within Scandinavia centred around a high frequency service in the triangle between the three capitals namely Copenhagen, Oslo and Stockholm, while Copenhagen is the main international hub.

It also revealed that from 1992, SAS started using the Amadeus worldwide distribution system allowing the Airline to reach a market of 200 million potential customers. Previously, the Airline was reported to have had access to only 20 million potential customers, largely in Scandinavia, via travel agents and its own system.

To confirm the high quality of service offered by SAS in the business market segment, the Airline was voted Denmark best service business in 1992 (SAS Annual Report 1992 : 12 - 13). SAS also claims to have had the best on time record of all European airlines in the previous ten years. Safety, punctuality and service were said to be the main reason for the Airline's success.
3.3.5 Ground Services

The high quality of service offered by SAS in the air is complemented by high quality of service on the ground. Surveys suggested that business travellers are more concerned about speed through the terminal rather than comfort. Hence, to speed up the check-in-process especially when baggage is involved, SAS has been experimenting with automated check-in, ticket and boarding pass (Doganis 1992 : 270).

3.3.6 Financial Performance

Following its remarkable turnaround in the early 1980s, SAS has generally maintained satisfactory financial performance. For example, the Airline made a profit of US$161 million in 1986 on an operating revenue of over US$2 billion (Southern African Economist 1988 : 13).

SAS Annual Report (1992 : 9) also explains the Airline’s strong financial position. For example, unlike most European airlines (except British Airways), SAS reported positive operating income between 1990 - 1992.

Although SAS tends to be a high cost airline due to the need to incorporate several high quality service features as described before, it however generates sufficient revenue to ensure profitability. Table 2.5 shows that although SAS was one of the highest cost airlines, it made an operating profit of US$233 million in 1988. Table 3.1 shows passenger yields of European airlines on international
services within Europe. SAS was one of the airlines with the highest yields, being third after Lufthansa and Sabena.

<table>
<thead>
<tr>
<th>AIRLINE</th>
<th>US$ PER PASSENGER-KM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lufthansa</td>
<td>0.250</td>
</tr>
<tr>
<td>Sabena</td>
<td>0.239</td>
</tr>
<tr>
<td>SAS</td>
<td>0.237</td>
</tr>
<tr>
<td>Swissair</td>
<td>0.232</td>
</tr>
<tr>
<td>Air France</td>
<td>0.218</td>
</tr>
<tr>
<td>Alitalia</td>
<td>0.205</td>
</tr>
<tr>
<td>KLM</td>
<td>0.187</td>
</tr>
<tr>
<td>Air Lingus</td>
<td>0.186</td>
</tr>
<tr>
<td>British Airways</td>
<td>0.184</td>
</tr>
<tr>
<td>Iberia</td>
<td>0.144</td>
</tr>
<tr>
<td>Air Portugal</td>
<td>0.122</td>
</tr>
<tr>
<td>Olympic</td>
<td>0.095</td>
</tr>
</tbody>
</table>

Table 3.1 Passenger Yields of European Airlines on International Services within Europe, 1989 (Doganis 1992 : 312).

3.3.7 Summary

SAS's remarkable turnaround was spearheaded by Jan Carlzon, the Managing Director who had the vision, courage and the leadership qualities required to lead the Airline from a loss making position into profitability or sound financial performance. Over a decade after the remarkable turnaround, Jan Carlzon was still the Managing Director of the Airline, successfully meeting the new challenges brought about by deregulation and the resultant intense competition. The Managing Director, by ensuring that employees appreciated and understood the critical importance of excellent customer service, all the employees then enthusiastically provided this service to the customer resulting in profitable Airline performance. Employees regularly came up with innovative ways to enhance customer service.
SAS is one of the mega carriers in Europe. The Airline has entered into several cooperative arrangements with other airlines which has enabled it to provide a global service and successfully meet the competition from its rivals.

SAS primarily focused its efforts into providing a high quality service in the business market segment. It followed successfully the differentiation focus strategy, firstly to achieve its turnaround and secondly to prosper in the deregulated operating environment in Europe after its turnaround.

3.4 Singapore International Airlines (SIA)

3.4.1 Background

SIA grew from a small regional carrier to one of the top five international carriers in the world in terms of revenue passenger kilometres, according to the Airline's managing director (SIA - A Profile 1992 : 1). SIA - A Profile details how SIA began operations in 1947 as Malayan Airways, servicing only neighbouring countries. During the two decades up to 1967, the Airline grew steadily and changed its name twice, firstly Malaysian Airways and then in 1967 became known as Malaysia - Singapore Airlines (MSA). In 1972, MSA was dissolved and two airlines namely Malaysian Airline System (now called Malaysian Airlines) and Singapore International Airlines emerged.
3.4.2 Corporate Philosophy

SIA's corporate philosophy is described in SIA - A Profile (1992: 7). The Airline believes that in a complex and dynamic operating environment, there is a need for clear, visible objectives to chart a direction to the company's progress.

SIA adopted the following mission statement:

"Singapore Airlines is engaged in air transportation and related businesses. It operates worldwide as the flag carrier of the Republic of Singapore, aiming to provide services of the highest quality at reasonable prices to customers and a profit for the company."

The Airline's corporate goals are:

a. To deliver the highest quality of customer service that is safe, reliable and economical.
b. To generate earnings that provide sufficient resources for re-investment and satisfactory returns to shareholders.
c. To adopt human resource management practices company-wide that attract, develop, motivate and retain employees who contribute to the company's objectives.
d. To maximise the utilisation and productivity of all resources.
SIA believes that sustained growth can only be achieved through innovation, imagination, prudent risk taking and entrepreneurial drive. SIA aims to remain competitive by taking advantage of the latest technology, to provide outstanding service at the lowest cost, without sacrificing safety standards. In addition to marketing features such as advertising and outstanding reputation for service, the Airline's strategy for survival is rooted in the firm foundations of a modern fleet, excellent ground facilities and, above all, personnel who are qualified, trained and led to offer the best.

3.4.3 High Growth Airline

SIA achieved phenomenal growth rates since its inception in 1972. Doganis (1985: 9,10) shows that whereas the world average growth rate of scheduled international airlines was 9.6 per cent per annum in the period 1972 to 1982, the growth rate for SIA was over 45 per cent, the highest in the world. This was followed by Saudia at 33.7 per cent, then Korean Airlines at 29.9 per cent. According to SIA - A Profile (1992: 5 - 6), the reason for this impressive growth was the Airline's strategy of high quality of customer service and product innovation, bold decision making, a highly motivated and productive staff, strong emphasis on continuous training of personnel at all levels, decentralisation of authority, a readiness to employ the most modern, cost-effective equipment and ability to exploit opportunities in the market.
3.4.4 High Quality of Customer Service

The Conventions of Paris (1919) and Chicago (1944) acknowledged the sovereignty of all states over their airspace. States endeavoured to overcome this restriction on international air transport by means of bilateral agreements which became the basis of international commercial air transport. The bilateral agreements have a number of economic restrictions. These include restrictions on entry into the market, the tariffs charged and the capacity produced. Traffic came to be regulated by the IATA.

IATA, among other things, prescribed the conditions of service associated with each fare. The conditions included such aspects as the seat pitch, charges for headphones and the number of meals served (Brits & Smuts 1992 : 31).

SIA, together with some Asian Airlines such as Korean Airlines, did not join IATA (Doganis 1985 : 37). This allowed these Airlines to capture market share by offering much higher levels of inflight service than permitted under IATA's conditions of service or less frequently, through greater flexibility in their tariffs. The higher quality of cabin service standards offered by SIA were described in section 2.4.4.

SIA - A Profile (1992 : 12 - 13) state that putting the customer first remains the cornerstone of the Airline's operating philosophy. This philosophy was said to entail introducing innovative features and
services. Some inflight customer features such as choice of meals, free drinks and free headsets were said to be SIA's innovations in the 1970s.

One aspect of customer service is the fleet. SIA has a policy of offering passengers state-of-the-art technology by offering the most modern fleet in the world among the major carriers, with an average aircraft age of just over 5 years.

3.4.5 Ground Services

According to SIA - A Profile (1992 :14), the high quality of customer service in the air is paralleled by excellent service on the ground - at the airports and ticket offices. For this reason, SIA launched in 1987 the "Outstanding Service on the Ground" scheme to improve the customer handling skills of the Airline's 3 500 front line staff all over the world.

At Singapore Changi Airport, a new departure control system, DCS 90, was launched in August 1992. The system was designed to increase the speed and efficiency of check in operations and simplify the training of check-in agents (SIA Annual Report 1992 - 93 : 18).

3.4.6 Distributing and Promoting the Airline Product

SIA's Annual Report gives an account of how the Airline reaches its customers. Like most Airlines, SIA's main channel of distribution is through travel agents. Johnson (1990 : 257 - 262) reveals that 75
- 85 per cent of all passenger bookings in developed countries are carried out by travel agents. He states that travel agents installed computer reservation systems (CRS) of those airlines which were easiest to use and which had the most up-to-date database and whose information display was in a user friendly form.

SIA recognised early the critical nature of a CRS in the distribution of their services. The Airline was a founding partner of Abacus Distribution System, a distribution system for the Asia-Pacific region. The other partners are Cathay Pacific, China Airlines, Malaysia Airlines, Royal Brunei, All Nippon Airways and Philippine Airlines (Johnson 1990: 260).

The Abacus system not only display information and take bookings, but also keep track of customer accounts, printed invoices and help with the administration of travel agents' business. Johnson (1990: 261) argued that those airlines which could build customer loyalty, for example, by rewarding regular travellers, were more successful than those who relied on simply advertising, promotion and inducements to the travel trade. SIA followed a similar strategy in promoting their services. SIA launched several programmes designed to build customer loyalty and offer First and Baffles Class passengers a better deal. For example, the Travel Bonus Scheme was launched for the Singapore market in October 1992 (SIA Annual Report 1992 - 93: 23). This was followed by a frequent flyer programme for the Australian and New Zealand markets, called "Hi-Flyer," in November 1992. SIA joined the Swissair's "Qualiflyer" Scheme in February 1993. Preparations were said to be under way to launch an Asian
frequent flyer programme, in conjunction with Cathay Pacific and Malaysian Airlines, from July 1993.

By taking care of travel agents' needs, SIA is recognising the pivotal role travel agents play in the Airline's distribution system and therefore the need to win them over to the Airline's side. Johnson (1990 : 258) states that a significant proportion of perhaps up to 20 per cent of passengers allow the travel agent to influence strongly their choice of airline. The travel agents are automated and use computer systems as sources of information on flights and fares and also to make bookings directly with the Airline.

SIA has a system for analyzing and dealing with passenger complaints and compliments which ensure that all service weaknesses are accurately reported, recorded and investigated (SIA Annual Report 1992 - 93 : 23). The more accurate measurement of passenger feedback allows more effective corrective action to be taken.

3.4.7 Cargo

SIA Annual Report (1992 - 93 : 24 - 25) gives an account of SIA's Cargo operations. Because of the growing importance of air cargo worldwide, important lessons can be derived by a closer look at how SIA manages its cargo operations.

In recognition of the increasing importance of air cargo business, SIA Cargo was set up as a separate division of SIA in July 1992. The Airline has a cargo fleet of Boeing 747 freighters serving
Asia, Europe, the USA, the Indian Subcontinent and the Southwest Pacific while the regional service is provided by Boeing 737 freighters. Cargo accounted for 17.8 per cent of total revenue and earnings from cargo were S$915 million in 1992 - 93. The Airline was ranked 12th in the world in terms of freight tonne-kilometres in 1993.

SIA has developed close alliances with other airlines to enhance its cargo service to customers. The alliances were with airlines which SIA views as having a strong track record and high profile in cargo, these airlines being BA, Lufthansa, KLM and SAS. SIA views such co-operation on a long-term basis.

3.4.8 Global Alliances

SIA - A Profile (1992 : 17) outline alliances which SIA has forged with other airlines for mutual benefits. In 1989, SIA formed an alliance with Delta Airlines and Swissair. These three airlines have a reputation for premium service, sustained profitability, strong balance sheets and a commitment to sound employee relations. Passengers can walk into any of the three airlines' ticket offices and receive services such as reconfirmation or re-validating of tickets. The partners also share airport lounges, joint trade promotions and advertising, reciprocal reservations and ticketing services, interchangeable tour packages, cargo automation programmes and global express services for small parcels. This cooperation effectively extends the Alliance partners' office network to over 380 cities in 90 countries.
SIA, in 1992 - 93, also established new aviation relations with Australia, People’s Republic of China, Japan, South Africa and the Philippines (SIA Annual Report 1992 - 93 : 28). These agreements largely concerned increasing the frequency of services or capacity between SIA and the various airlines.

3.4.9 Airline Personnel

SIA Annual Report (1992 - 93 : 31 - 35) outlines SIA’s commitment to human resource development. The Airline’s reputation for safe, reliable, efficient and excellent service was cultivated and developed by a dedicated and diligent work force. Despite the adverse economic and operating conditions, SIA reports that it has continued to invest heavily in staff training and development.

SIA training emphasises improved customer service. An example of this are simulated delay scenarios to practise passenger handling, the objective being to turn regrettable delays into service opportunities. The customer service training involve both ground staff and flight crew so that the passenger receives high quality of service from their first contact with the Airline, right through their travel experience with SIA.

3.4.10 Financial Position

When SIA was established, the Government made it clear that the Airline would neither be subsidized nor run for prestige and would be operated on a commercial basis, for the country’s benefit.
Without subsidies or favouritisms, but with intense competition, SIA has maintained consistent profitability since its inception.

When SIA was established in 1972/73 financial year, it made a profit after tax of S$12.5 million (SIA - A Profile 1992 : 9). Profit has since then steadily grown. The SIA group profit before tax in 1992/93 financial year was S$945 million (SIA Annual Report 1992 - 93 : 53). The Airline was one of a tiny number of Airlines which were in the black during this period.

The strong balance sheet of SIA is shown by the following extract from the company’s Annual Report (1992 - 93 : 65), (Table 3.2).

Table 3.2 shows that the Airline adopts a healthy practice of funding its fixed assets and long term investments from shareholders investment and retained profits. This is an inexpensive source of funds rather than relying on risky debt capital. The cash and bank balances decreased from S$1 841 million to S$805 million due to aircraft purchases although that cash and bank balances are still healthy by world airline standards. The Airline can obtain moderate amounts of new long term debt without seriously affecting its risk profile. The total current assets at S$2 511 million exceed the current liabilities at S$2 062 million by a significant margin. Extremely few Airlines in the World have such a strong balance sheet.

Of all the airlines which submitted their Annual Reports in response to our request for information, SIA had the highest staff productivity, measured in terms of available - tonne kilometres and revenue tonne kilometres, except for the year ended 31 December
Table 3.2  
Singapore International Airlines  
Balance Sheet as at 31 March 1992 and 1993

<table>
<thead>
<tr>
<th></th>
<th>31 March 1993 $million</th>
<th>%</th>
<th>31 March 1992 $million</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Capital Invested:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Shareholders investments</td>
<td>7 689</td>
<td>75.0</td>
<td>7 046</td>
<td>70.7</td>
</tr>
<tr>
<td>and retained profits</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Liabilities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Deferred liabilities</td>
<td>479</td>
<td>4.7</td>
<td>452</td>
<td>4.5</td>
</tr>
<tr>
<td>- Long-term liabilities</td>
<td>-</td>
<td>-</td>
<td>421</td>
<td>4.2</td>
</tr>
<tr>
<td>- Short-term liabilities</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>- Trade creditors</td>
<td>1 325</td>
<td>12.9</td>
<td>1 219</td>
<td>12.2</td>
</tr>
<tr>
<td>Other liabilities (such as</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>bank overdrafts, amounts</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>set aside for tax and</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>dividends)</td>
<td>757</td>
<td>7.4</td>
<td>836</td>
<td>8.4</td>
</tr>
<tr>
<td></td>
<td>10 250</td>
<td>100.0</td>
<td>9 975</td>
<td>100.0</td>
</tr>
</tbody>
</table>

**Total Assets:**  

<table>
<thead>
<tr>
<th></th>
<th>31 March 1993 $million</th>
<th>%</th>
<th>31 March 1992 $million</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Fixed assets (Aircraft,</td>
<td>5 400</td>
<td>52.7</td>
<td>4 542</td>
<td>45.5</td>
</tr>
<tr>
<td>spares and spare engines)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Land &amp; buildings,</td>
<td>1 781</td>
<td>17.4</td>
<td>1 633</td>
<td>16.4</td>
</tr>
<tr>
<td>engineering plant and</td>
<td>7 161</td>
<td>70.1</td>
<td>6 175</td>
<td>61.9</td>
</tr>
<tr>
<td>equipment, office and</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>computer equipment)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Long-term investments</td>
<td>558</td>
<td>5.4</td>
<td>522</td>
<td>5.2</td>
</tr>
<tr>
<td>(investment in associated</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>and other companies)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Trade debtors less</td>
<td>1 004</td>
<td>9.6</td>
<td>626</td>
<td>8.3</td>
</tr>
<tr>
<td>provision for doubtful</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>debts)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Cash &amp; bank balances</td>
<td>805</td>
<td>7.8</td>
<td>1 841</td>
<td>18.5</td>
</tr>
<tr>
<td>- Other current assets</td>
<td>702</td>
<td>6.9</td>
<td>611</td>
<td>6.1</td>
</tr>
<tr>
<td>(quoted investments &amp;</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>consumable stores)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>10 250</td>
<td>100.0</td>
<td>9 975</td>
<td>100.0</td>
</tr>
</tbody>
</table>
1992 when El Al had higher productivity. Table 3.3 shows a selection of these airlines from various parts of the world. The table clearly shows that staff productivity of the three Asian carriers namely SIA, Japan Airlines and Cathay Pacific were way ahead of their European and American counterparts. This fact combined with relatively lower wage scales of Asian carriers like SIA and Cathay Pacific results in such airlines having a significant competitive edge over their rivals. The staff productivity for Air Zimbabwe compares very unfavourably with even the lowest ranking SAS.

Table 3.3 - Airlines' Productivity (Source: Airline Annual Reports)

<table>
<thead>
<tr>
<th></th>
<th>31 Dec 1992</th>
<th>31 Dec 1991</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ATK</td>
<td>RTK</td>
</tr>
<tr>
<td>SIA(^1)</td>
<td>749 000</td>
<td>508 000</td>
</tr>
<tr>
<td>EL AL (Israel Airlines)</td>
<td>683 000</td>
<td>497 000</td>
</tr>
<tr>
<td>Japan Airlines(^2)</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Cathay Pacific Airways</td>
<td>501 000</td>
<td>339 000</td>
</tr>
<tr>
<td>British Airways(^1)</td>
<td>315 000</td>
<td>211 000</td>
</tr>
<tr>
<td>Lufthansa</td>
<td>277 000</td>
<td>181 000</td>
</tr>
<tr>
<td>United Airlines</td>
<td>262 000</td>
<td>209 000</td>
</tr>
<tr>
<td>American Airlines</td>
<td>204 000</td>
<td>110 000</td>
</tr>
<tr>
<td>SAS</td>
<td>184 000</td>
<td>105 000</td>
</tr>
<tr>
<td>Air Zimbabwe(^3)</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

1. For SIA and British Airways, the financial year ends are 31/3/93 and 31/3/92.

2. The figures available for Japan Airlines are for year ended 31/3/92.
3. The information available for Air Zimbabwe are for year ended 30/6/91.

Key: ATK — Available tonne - kilometres
      RTK — Revenue tonne-kilometres
      N/A — Not Available

The depreciation policies of a selection of airlines are shown in Table 3.4, extracted from the various Airlines Annual Reports. Airlines such as SIA, Cathay Pacific and Lufthansa depreciate their aircraft over relatively short lives of 10 years or below so as to accumulate sufficient reserves for aircraft replacement and other uses.

<table>
<thead>
<tr>
<th>AIRLINE</th>
<th>BASIS OF DEPRECIATION</th>
<th>DEPRECIATION PERIOD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cathay Pacific</td>
<td>Aircraft cycles</td>
<td>5 - 16 years</td>
</tr>
<tr>
<td>Lufthansa</td>
<td>Reducing balance method</td>
<td>8 years</td>
</tr>
<tr>
<td>SIA</td>
<td>Straight line method</td>
<td>10 years</td>
</tr>
<tr>
<td>British Airways</td>
<td>Straight line method</td>
<td>14 - 20 years</td>
</tr>
<tr>
<td>SAS</td>
<td>Reducing balance method</td>
<td>19 years</td>
</tr>
<tr>
<td>AMR Corporation</td>
<td>Straight line method</td>
<td>20 years</td>
</tr>
<tr>
<td>Air Zimbabwe</td>
<td>Straight line method</td>
<td>5 - 20 years</td>
</tr>
</tbody>
</table>

Table 3.4 Depreciation Policies for Aircraft, Spares and Spare Engines
3.4.11 Summary

SIA formulated a clear and challenging mission and corporate goals which provide a sense of direction for the Airline.

The Airline has been profitable since its inception in 1972. It has steadily grown from a tiny airline in 1972 to being a large Airline at present. It has often embarked on new aircraft purchases largely from its retained earnings resulting in it having one of the most modern aircraft fleets in the world.

The Airline adopted and consistently successfully implemented the differentiation strategy. The Airline differentiated its services through providing a high quality of customer service both in flight and on the ground, by being innovative and providing new and exciting service features ahead of its competitors.

SIA established efficient and effective distribution systems for its services and was a founder partner of the Abacus Distribution System. The Airline extensively markets its services to create a brand image of a 'high quality of service' airline in all its market segments.

SIA set up global alliances with various like minded airlines. The benefits of these cooperative arrangements include sharing airport lounges, joint trade promotion, inter-changeable tour packages, cargo automation programmes and global express services for small parcels.
The Airline recognizes the need to have a dedicated and diligent workforce to ensure that its reputation for a safe, reliable, efficient and excellent service is maintained. The airline carries out extensive training programmes for all levels of personnel. Personnel are also motivated to achieve the mission and objectives of the Airline. The result is that the Airline's productivity is one of the highest in the world.

3.5 Conclusions

Some important lessons were derived from the study of successful turnarounds of BA and SAS and the study of SIA, a consistently profitable airline for over 20 years. These lessons are discussed below:

It is necessary for an airline to have a mission which is basically the overall aim or purpose of the organisation. It is also necessary to have clear, challenging and actionable corporate goals.

The study of BA and SAS highlighted the need for strong, competent and committed top management to effect successful turnarounds. It is the top management who then formulate the appropriate mission, goals, objectives and strategies to effect the turnaround of airlines.

SAS was a private airline (not Government owned and controlled) when it effected its turnaround and management had a free hand to adopt the strategies they deemed fit to effect the turnaround. SIA
had always been in private hands with no Government assistance whatsoever while it achieved its consistent success. These factors point to the need for a policy shift by SADC Governments to privatise their airlines if profitability is to be achieved.

BA and SAS are mega carriers. SIA is much larger than the combined SADC fleets. This highlights the need for SADC airlines to either merge, closely cooperate or form alliances among themselves or with partners outside SADC so as to benefit from economies of scale, among other things.

SIA consistently adopted a differentiation strategy. Such a strategy involves extra costs of providing the differentiation features such as a modern, aesthetically appealing jets, a high quality of both in flight and on the ground customer service and introducing new innovative features ahead of the competitors. SADC airlines, due to their poor economic and financial performance, are ill equipped to adopt a differentiation strategy.

BA, SAS and SIA's emphasis on human resource training and development underline the fact that people are the most important resource in the airline inventory. This is because the airline product is a service subject to personal or subjective assessment, and it is necessary to produce a high quality of service the first time. The extensive training and personnel development undertaken by SIA is reflected in extremely high levels of staff productivity. Adopting such an approach should result in SADC airlines markedly improving their staff productivity.
4. PRAGMATIC TURNAROUND STRATEGIES FOR SADC AIRLINES

4.1 Introduction

In chapter 2, a literature research was carried out pertaining to the identification of the ideal strategies for success of airlines. In the third chapter, a study of British Airways, SAS and SIA revealed the successful application of some of the strategies discussed in chapter 2.

In this chapter, pragmatic strategies which may be used to turnaround SADC airlines will be discussed, based on the research in chapters 2 and 3.

4.2 Cost Leadership Strategy

4.2.1 General

The cost leadership strategy depicted in Figure 2.2 (Vide 2.3.1) seeks to achieve production efficiency, market/service efficiency and cost efficiency in all areas of the operations of an airline. There is a lot of scope for SADC management to drastically cut costs in all aspects of airline operations as highlighted in Sections 4.2.2 to 4.2.4.
4.2.2 Production Efficiency

Production efficiency can be realised through efficient and effective airline scheduling as explained in Section 2.3.2. This would ensure that expensive flying personnel namely pilots, flight engineers, cabin attendants as well as aircraft and related equipment are optimally utilised to minimise costs. Maintenance plans and schedules also need to be designed to ensure efficient utilisation of facilities and personnel while ensuring that safe aircraft are available for every schedule. SADC aircraft fleet should be planned in such a way that the optimum number, type and size of aircraft are selected to enable the airline objectives to be effectively realized.

Airlines with relatively low wages and relatively high labour productivity such as SIA, Thai International and Pakistan International Airways have a significant competitive edge over their competitors (Doganis 1992: 134, 136). British Airways achieved a remarkable turnaround in the early 1980s by, among other things, increasing labour productivity (Vide 3.2). Manpower levels were drastically cut to reduce overmanning and adopting appropriate policies on working hours per week, working days per week and maximum duty hours of flying while maintaining adequate safety standards.

SATCC & World Bank (1992:14-15) reported that although technical management in SADC airlines was adequate, this was not the case with commercial and financial management. In 1990, the number of people working in SADC airlines was 14 300. Twenty-five to 35 per cent of these were reported to be overhead staff when the international
average is about 20 per cent. This top-heaviness was said to be due to the small size of SADC airlines as well as government employment policies which resulted in airlines having large numbers of unskilled personnel. Productivity within SADC airlines was said to be less than half of those of most international airlines.

The above problems illustrate the need for a policy change by SADC Governments to allow airlines to operate on more commercial lines. This could be achieved through commercialising SADC airlines. This process has already started in some countries such as Zimbabwe where Air Zimbabwe and other parastatals such as the Zimbabwe Iron and Steel Company (ZISCO) have been earmarked to be commercialised. However, the Government is involved in the appointment of the Chief Executive Officer and still subsidizes these parastatals when they make losses. Hence, although commercialisation would be an important step, privatisation should be the ultimate goal as discussed in Section 2.8.4.

Such a policy change is likely to solve some of the deficiencies of SADC airlines reported by SATCC & World Bank such as inadequate management (or cost) accounting skills. Such skills are required for making decisions on such aspects as pricing, investment and route structures as well as route profitability calculations, cash flow projections, capital expenditure control and analysis of sales by point of sales. Such a policy change should solve such deficiencies as lack of adequate management information systems (MIS) (SATCC & World Bank 1992 : 16) or lack of appreciation by management of the need for an effective MIS as a crucial management tool.
SADCC airlines can increase labour productivity by employing appropriately skilled personnel and avoiding overstaffing. Existing personnel who may be semi-skilled or unskilled can be trained. Continuous training of all personnel is also necessary to keep them up to date with developments in the competitive environment. The need for such training was highlighted in the study of SIA (Vide 3.4). Performance related salaries and other incentive schemes should result in increased productivity.

4.2.3 Market/Service Efficiency

Market efficiency can be achieved by SADC airlines by ensuring that adequate load factors and high aircraft utilisation are achieved in order to achieve profitable operations. At present, there is chronic oversupply of capacity in the SADC region. For market efficiency, it is necessary to sell excess aircraft or for airlines to vigorously market their services to attract more traffic. Market efficiency also requires adequate yields to be realised through pricing mechanism and seat inventory management as described in Section 2.3.3.

Table 4.1 shows what SATCC & World Bank (1992 : 12) projected would be aircraft required in SADC in 1996. Because of the present oversupply of capacity, it was projected that much fewer aircraft than 63 (Table 4.2), that is only 52 would be required to satisfy the size of the existing markets plus any projected increase in demand in 1996, even if SADC airlines continued operating individually. Some efficiency improving measures such as more efficient scheduling would
also assist in reducing the total number of aircraft required in SADC fleets.

<table>
<thead>
<tr>
<th>AIRLINE</th>
<th>AIRCRAFT</th>
<th>OPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>GO-IT-ALONE</td>
</tr>
<tr>
<td>TAAG ANGOLA</td>
<td>B-737 - 200</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>F-27/F-50</td>
<td>5</td>
</tr>
<tr>
<td>LAM MOZAMBIQUE</td>
<td>B-737 - 300</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>B-737 - 200</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>ATR-42/F-50</td>
<td>1</td>
</tr>
<tr>
<td>AIR BOTSWANA</td>
<td>BAe-146</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>ATR-42</td>
<td>2</td>
</tr>
<tr>
<td>ROYAL SWAZI</td>
<td>BAe-146</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>ATR-42</td>
<td>0</td>
</tr>
<tr>
<td>LESOTHO AIRWAYS</td>
<td>DHC-6-300</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>ATR-42/F-50</td>
<td>1</td>
</tr>
<tr>
<td>AIR NAMIBIA</td>
<td>B-737-200</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>BEECH 1900</td>
<td>3</td>
</tr>
<tr>
<td>ZAMBIA AIRWAYS</td>
<td>B-737-200</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>ATR-42</td>
<td>2</td>
</tr>
<tr>
<td>AIR TANZANIA</td>
<td>B-737-300</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>B-737-200</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>ATR-42/F-50</td>
<td>3</td>
</tr>
<tr>
<td>AIR MALAWI</td>
<td>DHC-6-300</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>B-737-300</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>B-737-200</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>ATR-42/F-50</td>
<td>2</td>
</tr>
<tr>
<td>AIR ZIMBABWE</td>
<td>B-737-200</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>BAe-146</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>ATR-42/F50</td>
<td>1</td>
</tr>
<tr>
<td>TOTAL JETS</td>
<td>About 135 seats</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>About 110 seats</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>About 75 seats</td>
<td>4</td>
</tr>
<tr>
<td>TOTAL TURBOPROPS</td>
<td>About 40 seats</td>
<td>17</td>
</tr>
<tr>
<td></td>
<td>About 20 seats</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td></td>
<td>--</td>
</tr>
<tr>
<td>ALL</td>
<td></td>
<td>52</td>
</tr>
</tbody>
</table>

Table 4.1: Projected SADCC Fleet profiles under different options, 1996 (SATCC & World Bank 1992: 12)

SATCC & World Bank (1992: 6-7, 12) showed that if joint use of aircraft facilities such as aircraft servicing and training, aircraft standardisation, joint marketing of services, among other
things, were to take place it would enable the SADC fleet to be significantly reduced from 63 aircraft in 1992 to a projected 42 in 1996, while still maintaining the required level of services. The excess aircraft would be sold or leased to other operators outside SADC. Operating such a reduced fleet would result in cost economies due to the elimination or significant reduction of excess capacity within SADC and high aircraft utilisation as well as higher load factors.

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>NUMBER OF AIRCRAFT</th>
<th>AIRCRAFT TYPES</th>
<th>NUMBER OF TYPES</th>
</tr>
</thead>
<tbody>
<tr>
<td>ANGOLA</td>
<td>16</td>
<td>L-1011, B707, B737, F-27</td>
<td>4</td>
</tr>
<tr>
<td>BOTSWANA</td>
<td>5</td>
<td>BAe146, ATR-42, DORNIER 228</td>
<td>3</td>
</tr>
<tr>
<td>LESOTHO</td>
<td>5</td>
<td>F-27, DHC-6</td>
<td>2</td>
</tr>
<tr>
<td>MALAWI</td>
<td>3</td>
<td>BAC-111, HS-748</td>
<td>2</td>
</tr>
<tr>
<td>MOZAMBIQUE</td>
<td>5</td>
<td>DC-10-30, B-737, CASA 212</td>
<td>3</td>
</tr>
<tr>
<td>NAMIBIA</td>
<td>5</td>
<td>B-747, B-737, BEECH 1900</td>
<td>3</td>
</tr>
<tr>
<td>SWAZILAND</td>
<td>1</td>
<td>F-28</td>
<td>1</td>
</tr>
<tr>
<td>TANZANIA</td>
<td>8</td>
<td>B-737, F-27, DHC-6</td>
<td>3</td>
</tr>
<tr>
<td>ZAMBIA</td>
<td>6</td>
<td>DC-10-30, DC-8-73, B-737, ATR42</td>
<td>4</td>
</tr>
<tr>
<td>ZIMBABWE</td>
<td>9</td>
<td>B-767, B-707, B-737, BAe-146</td>
<td>4</td>
</tr>
<tr>
<td>TOTAL</td>
<td>63</td>
<td></td>
<td>17</td>
</tr>
</tbody>
</table>

Table 4.2: SADCC Airline Fleet Compositions (SATCC & World Bank 1992 : 31)

SADC airlines have networks developed over many years that include many different sized markets. The SADC fleet, therefore, is composed of several different sizes of airplanes. The main problem is that some of the airlines' smaller markets are too small for their smallest aircraft and these operations are assessed as
inefficient. For example, Air Zimbabwe uses the Boeing 737s and Bae 146 on some domestic and regional destinations (such as Lusaka) which are less than 500 kilometres range.

In a regulated environment, the tendency for airlines is to retain these small markets in an attempt to grow them to acceptable levels. With moves towards deregulation, the rational thing to do appear to be to abandon these smaller markets and concentrate on the bigger medium and long haul markets where adequate load factors may be achieved.

However, there is a lot of intense competition in the long haul markets. This was ushered in by the opening up of the economies of most SADC states following the adoption of the World Bank/International Monetary Fund sponsored Economic Structural Adjustment Programmes (ESAP). ESAP was introduced in Zimbabwe in 1990. In the case of Air Zimbabwe, the competition include that from large carriers like Air France, British Airways, Lufthansa, Swissair, KLM, TAP and South African Airways. The competition embraces all the four elements of the marketing mix, including the price. There is an opportunity for SADC airlines to be low cost leaders, for example, by taking advantage of their relatively low labour costs. Hence, they may be able to compete effectively on price and yet maintain adequate yields.
4.2.4 Cost Efficiency

a. Fuel Costs

SADC airlines have within their fleets some ageing aircraft such as Boeing 707s, Boeing 737-200s, DC-8s and DC-10s (see Table 4.3). Fuel costs can be minimised by replacing these ageing aircraft with more modern fuel efficient aircraft such as the Boeing 737-400s or 500s, Boeing 767s and MD-80s. However, the capital costs of new aircraft tend to be very high compared to the book values of the ageing aircraft they will be replacing hence the need to take advantage of the low operating costs of modern aircraft though greater aircraft utilisation.

<table>
<thead>
<tr>
<th>YEARS OLD</th>
<th>TYPE</th>
<th>0-5</th>
<th>5-10</th>
<th>10-15</th>
<th>15-20</th>
<th>20+</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small turboprops (fewer than 25 seats)</td>
<td>3</td>
<td>3</td>
<td>7</td>
<td></td>
<td></td>
<td>13</td>
<td></td>
</tr>
<tr>
<td>Medium turboprops (25 - 50 seats)</td>
<td>4</td>
<td>1</td>
<td>5</td>
<td>1</td>
<td>3</td>
<td>14</td>
<td></td>
</tr>
<tr>
<td>Medium range jets (70 - 110 seats)</td>
<td>7</td>
<td>4</td>
<td>6</td>
<td></td>
<td>4</td>
<td>21</td>
<td></td>
</tr>
<tr>
<td>Long-range narrow body jets (120 - 150 seats)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>9</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>Long-range wide body jets (175 - 250 seats)</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td></td>
<td></td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>16</td>
<td>10</td>
<td>20</td>
<td>1</td>
<td>16</td>
<td>63</td>
<td></td>
</tr>
</tbody>
</table>

Table 4.3: Age Profile of the SADC aircraft fleet, 1991 (SATCC & World Bank 1992: 31)

b. Aircraft Types

SADC airline fleets are composed of aircraft of many different varieties (see Table 4.2). The Southern African Economist (1988:3) also reported that SADCC airlines owned (in 1987) 68
aircraft made up of 16 different varieties. Since then additional aircraft to the SADC fleet includes the Boeing 767s and the BAe 146.

As of mid 1995, Air Zimbabwe had a fleet of ten aircraft made up of five varieties namely three Boeing 737s, two Boeing 767s, two Boeing 707s, one BAe 146 and two Fokker 50s. Such a mixed fleet results in increased costs of such aspects as pilot training, maintenance training, the costs of spare parts inventories and the overall complexity of operations (Doganis 1992 : 161). For cost efficient operations, it is necessary that the number of different aircraft for a carrier be limited.

c. Airline Integration

SADC airlines are likely to benefit significantly if their operations were integrated. Cost savings would result from economies of scale in bulk purchase of spares, integrated training facilities, shared maintenance facilities, joint marketing of services and coordinated purchase of aircraft, among other benefits. Many SADC routes overlap, so the benefit of network integration will arise if excess aircraft are sold (SATCC & World Bank 1992 : 12 and Table 4.1) or if new markets are found.
4.2.5 Summary

The discussion above appear to confirm the practicality of implementing the ideal strategies for SADC airlines discussed in Section 2.8.1 and 2.8.3. The ideal strategy of cost leadership can be adopted because there is a lot of scope to increase production efficiency, market/service efficiency and cost efficiency. The same arguments are applicable if a cost focus strategy is chosen.

4.3 Cost Focus Strategy

4.3.1 General

An airline employing the cost focus strategy concentrates on a particular segment of the market and applies a cost leadership strategy.

4.3.2 Focus on Regional Operations

SADC airlines could focus their operations on regional (within Africa) or domestic routes. SADC airlines are more knowledgeable about the market needs of the region and how to satisfy those needs than international 'mega-carriers', for instance. In the regional routes, SADC carriers could operate feeder services to regional hubs such as Harare, Lusaka, Johannesburg, Nairobi or Addis Ababa. A broadly-targeted 'mega-carrier' like British Airways may be bearing higher than necessary costs in serving, for instance, the SADC market by using large aircraft for feeder services within
SADC. An opportunity for cost focus may be present for SADC airlines in just meeting the needs of the SADC market for efficient feeder services from various SADC towns to most parts of the world. As will be shown in Section 5.2.1.e(2), the performance of SADC airlines on regional markets is comparatively better, with 6 of the 10 airlines either making a profit or breaking-even while on international markets only one airline managed to break-even.

SADC airlines could benefit from focusing their operations within the regional and domestic markets if they closely cooperate in various areas. Possible areas of cooperation would be in aircraft scheduling and coordination of services, sharing of facilities such as aircraft handling, cooperation in aircraft purchasing, maintenance and training of personnel.

4.3.3 The Tourist Market

Another possibility is for SADC airlines to focus on the tourist market. SADC countries offer some excellent tourist sites such as game parks in countries like Zimbabwe, Zambia, Botswana, Namibia and Tanzania. The Victoria Falls bordering Zambia and Zimbabwe is one of the seven wonders of the world. The ‘harsh’ beauty of the Kalahari desert in Namibia is yet to be fully discovered by tourists from all over the world looking for exotic destinations in Africa. Because of the low incomes within SADC states, there is little domestic and regional tourist market. The greatest potential to dramatically increase the tourist market lies
in attracting tourists from the developed countries or newly industrialised nations of Asia.

There are, however, some drawbacks in focusing on the tourist market. The potential tourists are scattered over a number of continents and several countries. The challenge is in reaching this potential market. This requires sophisticated international marketing skills to not only identify the potential market and their needs but also in choosing a cost effective media to reach the market. For example, television advertising in Europe or America is very expensive. The other problem is to choose the right television channel. The same problem would be encountered in choosing the right print media out of a multitude in the developed world. The use of travel agents paid on commission has its own problems. The 'mega-carriers' and other airlines in the developed world tend to pay travel agents high commissions to win them over to their side. By providing travel agents with facilities such as computerised reservations systems, larger and stronger international airlines are likely to be favoured.

The developed world airlines also have the managerial and technical capability to not only skilfully market their services to tourists but also to effectively employ the technique of yield management. Computers are used to determine how to optimise yields by determining the level and timing of discounts as well as the proportion of traffic on promotional fares while maintaining optimum load factors. Such skills are limited in SADC countries.
Therefore, focusing on the tourist market is not likely to result in optimal performance.

4.3.4 The Business Market Segment

One possibility is for SADC airlines to focus their services on the business market. Most business traffic into SADC originate from Europe especially the former colonial countries namely Great Britain, Germany and Portugal. However, discussions with airline representatives revealed that most business people originating from Europe tended to use their national airlines or other European airlines rather than SADC or other airlines. The reason cited for this was that European airlines were perceived to offer a better quality of service than SADC airlines. This perception could have arisen because of better and more sophisticated marketing techniques by these airlines compared to SADC airlines.

4.3.5 Cargo Traffic

A possible option is for SADC airlines to focus on cargo traffic. However, cargo traffic, although growing, accounts for a small proportion of aviation traffic (see Tables 4.4 and 4.5).

The acquisition of specific cargo aircraft in significant numbers may be ill advised. This is because most cargo is carried in the bell holds of passenger aircraft. The liberalisation of
international air transport in some SADC states with significant
cargo traffic such as Zimbabwe has resulted in some developed
countries' airlines such as British Airways, KLM, Air France,

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Regional Passengers</td>
<td>1133</td>
<td>1222</td>
<td>1287</td>
<td>1379</td>
</tr>
<tr>
<td>(thousands)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regional RPK (millions)</td>
<td>1240</td>
<td>1339</td>
<td>1409</td>
<td>1501</td>
</tr>
<tr>
<td>Regional cargo tonnes</td>
<td>12</td>
<td>13</td>
<td>14</td>
<td>15</td>
</tr>
<tr>
<td>(thousands)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regional cargo tonne km</td>
<td>13</td>
<td>15</td>
<td>16</td>
<td>16</td>
</tr>
<tr>
<td>(millions)</td>
<td></td>
<td></td>
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<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercontinental passengers</td>
<td>556</td>
<td>563</td>
<td>733</td>
<td>852</td>
</tr>
<tr>
<td>(thousands)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intercontinental RPK</td>
<td>3921</td>
<td>3994</td>
<td>5225</td>
<td>6037</td>
</tr>
<tr>
<td>(millions)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intercontinental cargo tonnes</td>
<td>33</td>
<td>34</td>
<td>34</td>
<td>34</td>
</tr>
<tr>
<td>(thousands)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intercontinental cargo tonne km (millions)</td>
<td>232</td>
<td>241</td>
<td>235</td>
<td>235</td>
</tr>
</tbody>
</table>

Table 4.5. Total Intercontinental Aviation Traffic of SADCC countries 1986 – 89 (SATCC & World Bank 1992:24)

Swissair and Lufthansa using large aircraft namely the Boeing 747s, MD-11s and DC-10s which have large cargo capacity in their belly holds. Air France operate Boeing 747 combi aircraft into Zimbabwe.
All this reduces the scope for operating successfully specific cargo aircraft in significant numbers by SADC airlines.

4.3.6 Summary

It appears that the cost focus strategy can only be profitably employed by focusing on regional and possibly domestic routes while also cooperating either regionally or elsewhere to optimise the use of the expensive facilities and resources.

4.4 Alliances

The three generic turnaround strategies would best be implemented if SADC airlines were integrated or if they closely cooperated as explained in Section 4.2.3 and 4.2.4(c). An integrated SADC airline could, as discussed before, result in massive cost savings through economies of scale. Similarly, a focus strategy, focusing on regional operations, would be facilitated if there was an integrated regional airline.

Individually, SADC airlines are too weak to compete against international 'mega-carriers'. If regional airline integration is not possible, at least some few regional airlines could pull their resources together to share risks and costs. As discussed in Chapter 3, SIA formed alliances with like minded airlines for the benefit of all the participating airlines. British Airways merged with British Caledonian Airways in order to form a stronger 'mega carrier' best suited to meet any challenge globally. SAS belongs to three Nordic countries namely Sweden, Denmark and Norway, making
it a strong force in the air transport industry. Airline mergers and takeovers are common in North America also.

4.5 Distributing and Promoting the Airline Product

The critical nature of a computer reservation system (CRS) and travel agents in the distribution of the airline product has already been highlighted. SIA, recognising the importance of this, was a founder member of Abacus Distribution System for the Asia-Pacific region. Since printed material such as airline guides and timetables become quickly outdated, SADC airlines would find it advantageous to distribute information to their sales agents and offices using computers which would facilitate the continuous updating of information. The information terminals would also be used for ticketing and reservations.

Developing a CRS is very expensive, requiring huge investments in computers, program developments and communication lines. Hence, many airlines have cooperated, for example, in the development of Abacus System in Asia/Pacific region and Amadeus and Galileo distribution systems in Europe.

SATCC & World Bank (1988 : 81) mentioned a neutral CRS namely Gabriel/GETS which is owned by IATA and is relatively cheap for small airlines to join. SATCC & World Bank stated that 9 of the 10 SADC airlines had joined the system by 1988, the exception being Air Zimbabwe. Air Zimbabwe ought to join the other SADC airlines
in adopting the Gabriel/GETS CRS which should facilitate regional cooperation.

SADC airlines should take advantage of increased automation by using the data used for making reservations to produce sales statistics, revenue accounting, invoices as well as tickets and boarding passes. The terminals connected to the CRS should extend from airline offices and travel agents to major companies which frequently use air transport. These companies would also have ticket printers but would be linked to a travel agent or airline office who would monitor the transactions and issue the invoices.

4.6 Capital Structure

SADC airlines needs to match long term sources of finance namely long term debt, equity and provisions with long term or permanent assets such as aircraft, ground equipment and buildings. There is also need for an optimum mix of debt and equity. If there is too much debt, there is a risk that the airline may fail to pay its creditors especially when interests rates are high and this could result in an airline being liquidated as was the case with Zambia Airways in early December 1994. An optimum mix of equity to long term capital is 30 to 80 per cent (SATCC & World Bank 1988 : 67) with 30 per cent being the barest minimum. The target varies with risk in the airline business as well as how tangible the assets are and the ease with which the assets can be sold.
SADC airlines also need sufficient liquidity to meet their day-to-day requirements. This would allow them to avoid the possibility of having to resort to seeking for short term finance at possibly high interest rates to pay for such things as salaries, spares or fuel. The working capital cycle need to be properly managed to cover the working capital requirements of an airline.

4.7 Conclusions

The discussion above point to the viability of adopting either the cost leadership or cost focus strategies as the most pragmatic turnaround strategies for SADC airlines.

The cost leadership strategy would require SADC airlines to be much more efficient than at present. Cost efficiency can be achieved through minimising fuel costs by replacing ageing fuel inefficient aircraft with more modern fuel efficient aircraft; through rationalising the aircraft types in a fleet and through economies of scale which would arise if SADC airlines were integrated. Market efficiency would be achieved through high load factors, high aircraft utilisation, as well as disposal of excess aircraft. Production efficiency would be achieved through efficient and effective airline scheduling and through higher employee productivity.

The focus strategy could be profitably employed by focusing on regional and possibly domestic routes.
Close cooperation or integration of SADC airlines or formation of alliances with airlines inside or outside SADC would be critical in the success of the pragmatic turnaround strategies since the airlines would be optimising the use of expensive facilities and resources.
5. INTERNAL AND EXTERNAL APPRAISAL

5.1 Introduction

Various factors have contributed to the poor performance of SADC airlines. Some of the factors are internal or within management control, thus reflecting some weaknesses within SADC airlines. Some of the factors are outside the control of the airlines, emanating from the external or operating environment.

In this chapter, we shall first analyse the present situation pertaining to the internal environment of SADC airlines, in particular that of Air Zimbabwe. This is carried out using the McKinsey 7-S framework to reveal weaknesses and strengths. The appraisal or assessment is done to see if the internal structure, strategies, staffing, style of management, systems (management information, accounting system, quality control systems, maintenance systems among others), skills and shared values (superordinate goals) within SADC airlines are appropriate for the recommended strategy of cost leadership (the broad based or focus strategy).

The internal analysis is followed by an analysis of the external/operating environment of SADC airlines. This comprise the economic, political, social, technological, regulatory and ecological environment. The objective of the analysis is to reveal opportunities which can be exploited by SADC airlines as well as threats which ought to be overcome in order to achieve optimal results through implementing the cost leadership strategy.
From the literature research very little information on SADC airlines could be found except from the Air Zimbabwe Annual Reports and from a document entitled 'The SADCC Airline Industry Study' dated March 1992 by SATCC and World Bank. Cross checking of data on Air Zimbabwe Annual Reports revealed that information on the document was reliable. The information on the SATCC and World Bank report is used extensively in the analysis of SADC airlines (Vide 1.5.4).

5.2 Internal Appraisal - McKinsey 7-S Framework

The reasons which have led SADC airlines into a loss situation which they do not seem to be reversing are analysed using the McKinsey 7-S framework (Jauch & Glueck 1986 : 303 - 305). The McKinsey 7-S framework explains that the effectiveness of any organisation stems from the interaction of several factors namely strategy, structure, systems, style, staff, shared values (superordinate goals) and skills (Vide 2.7). This is used to examine the internal environment (weaknesses and strengths) of SADC airlines and Air Zimbabwe in particular to determine whether the organisation's strategies are practical and feasible. This is done through analysing or examining available literature on SADC airlines such as the SATCC and World Bank report of 1992 and airline annual reports as well as talking to senior airline representatives.

The internal analysis of SADC airlines is done with regard to the structure, strategy, skills, staffing, systems, style and superordinate goals (shared values).
5.2.1 Weaknesses

a. Structure

Air Zimbabwe, like almost all SADC airlines, is government owned. The Airline is a parastatal. This is also the case with the national airlines of Botswana, Lesotho, Malawi, Namibia and Tanzania. However, the airlines of Mozambique and Angola are integral parts of a government department while the Royal Swazi Airline is a private company with half the equity being owned by the Government and the other half by the King of that country (SATCC & World Bank 1992 : 73).

The Air Zimbabwe Corporation functions under the direction of a board appointed by the Minister of Transport and Energy. The General Manager is appointed by the board and has responsibility for the day-to-day operations of the corporation (Zimbabwe 1968 : 324 - 329).

SADC airlines typically have tall organisational structures (attempts to obtain an organisation structure for Air Zimbabwe by the author proved fruitless) comprising many layers of management compared to other international airlines (SATCC & World Bank (1992 : 77)). This lengthens the lines of communication from the point of decision to the point of action. This is likely to result in distortion of information as it moves up and down the organisation's ladder, results in delays in making decisions and with the consequent general inefficiency of the airlines.
Strategic change is impeded in such a tall organisational structure. According to Quinn, Mintzberg & James (1988 : 550 - 551), a bureaucratic structure is all right in a stable environment but in the dynamic environment in which we live, new problems constantly arise. These non-routine problems tend to be pushed up the hierarchy which leads to top management being overloaded. Top management tends to get so enmeshed in operating problems that they lose sight of strategic considerations.

Strategy implementation is often impeded by the prevalence of acting appointments within the top management. For example, Air Zimbabwe had an acting General Manager from August 1991 to October 1993. This practice is prevalent in SADC airlines (SATCC & World Bank 1992 : 77).

b. Strategy

SADC airlines do not pursue specific strategies to gain a competitive edge over their competitors. No SADC airline has pursued say a cost leadership, differentiation or focus strategy. No serious efforts have, for example, been made to integrate or for close cooperation among some or all SADC airlines so as to benefit from economies of scale through joint marketing of services, coordinated procurement of aircraft and spares, rationalisation of fleets or joint training of personnel, among other things.

Although there are numerous dynamic changes in the operating environment, management do not appear to have come up with
c. Skills

The nature of services that airlines offer requires highly qualified and skilled personnel such as aircraft engineers and technicians, pilots, economists, financial and management accountants, financial analysts and marketing specialists. SADC airlines have recognised the need for adequately trained personnel in the technical and operational areas. Pilots, engineers and technicians are trained and licensed to international standards as required by law. The civil aviation administration authorities carry out periodic supervision and inspection to ensure that the stringent training requirements are adhered to (SATCC & World Bank 1992: 78 - 79).

SATCC & World Bank (1992: 79 - 80) revealed that most SADC airlines do not seem to appreciate also the need for well trained and qualified personnel in the rest of the areas of airline activity. Apart from some qualified personnel such as
accountants, marketing or personnel managers among the top management, middle and lower levels of the airlines tend to be staffed with unskilled or semi-skilled personnel.

SADC airlines appear to compensate for lack of administrative skills by overstaffing. The overhead staff (those engaged in administrative areas) component of SADC airlines’ total costs ranging between 25 per cent to 35 per cent (SATOC & World Bank 1992 : 77) tends to be much higher compared to international airlines which is about 20 per cent. Some of this overstaffing is inevitable due to the small size of the airlines and other technical deficiencies such as underdeveloped computerisation.

Productively levels of SADC airlines are relatively much lower compared with airlines from developed countries. The SADC average number of employees per aircraft seat are 3.2 while that for developed countries’ carriers average 1.5. The revenue passenger kilometres per employee for SADC and international carriers of similar size are 286 000 and 750 000 respectively (SATOC & World Bank 1992 : 78). This lower productivity is most likely due to both overstaffing and lack of skilled personnel.

Although there is a general shortage of skilled and qualified personnel within SADC countries, it is often difficult for parastatals or government departments to recruit and retain the best because of uncompetitive salaries and poor conditions of service especially for administrative staff. Airlines tend to
d. Staffing

The Air Zimbabwe Board consists of the General Manager, ex officio, and five members appointed by the Minister of Transport and Energy for a term not exceeding three years. The Air Zimbabwe Act (Section 7) specifies certain disqualifications for appointment as members of the Board. These include persons who are not citizens of Zimbabwe, an unrehabilitated insolvent and a person who has been convicted and sentenced to imprisonment. The Act does not specify the qualifications required for one to be a member of the Airline Board. A Committee of Inquiry into Air Zimbabwe headed by Justice L G Smith (1986 : 12) found that some members with limited educational and professional backgrounds or some with heavy commitments or interests outside the corporation sometimes become Board members. Sometimes a vacancy within the Board takes a long time to be filled.

The Committee of Inquiry into Air Zimbabwe (1986 : 15 - 25) also found that some of the problems faced by Air Zimbabwe can be traced back to the Board. The Board failed to come up with a management structure which allows the Airline to respond to the challenges of the Corporation. A programme of cost containment could have been pursued and the Airline management could have been mobilised to see how costs could be reduced and revenues increased. The Board could have consistently resisted Ministerial interference in the day-to-day running of the Airline.
and assert its authority on management by setting performance standards and ensuring that they are met. SATCC & World Bank (1992:74) confirm that similar problems continue to be experienced in most SADC airlines.

e. Systems

(1) Management Information Systems (MIS)

Information systems need to be designed to focus on the initial tasks and decisions made within an organisation and to provide the kind of information that management needs to perform those tasks and make those decisions. The MIS reports should include general activity reports, performance reports and financial reports. General activity reports would highlight special projects or important events periodically (say monthly). Performance reports should be periodic (weekly, monthly or quarterly) production or traffic summaries for management. Financial reports should be for internal management analysis produced say monthly or quarterly and consisting of information on, for example, revenue, costs, cash flows and route performance.

From my investigations (through visits and discussions with some Air Zimbabwe senior personnel) it appears that the MIS with Air Zimbabwe are largely informal in that information seems to be passed to top management based on two criteria namely:
a. On a 'need to know' basis, that is, where management specifically request the information.

b. At the discretion of the subordinate, where he believes that the information should be brought to the attention of management.

Such a largely informal information system depends for its efficiency on personalities who operate the system. There appears to be no consistent body of information available to all managers to ensure that they make compatible decisions.

Air Zimbabwe has considerable computer capacity. Nearly all departments have micro-computers. However, there appears to be a tendency for each department to produce their own data without sufficient regard to what other departments are doing. Hence, one often encounters differences in the data. One example is traffic figures which often vary among say the accounting section, operations section and the sales and marketing section.

One major drawback of Air Zimbabwe’s MIS is that the reports are generally never timely. For example, audited Annual Reports are sometimes published after one to two years (Vide 5.2.1(e)(2)). The information value of such reports would be of doubtful relevance in the dynamic operating environment that the Airline operates in.
It appears that the reason for the poor MIS system is that Air Zimbabwe management have to some extent failed to clearly define and specify their information requirements. The result appears to be the emergence of an informal system where some individual managers tend to manage those activities which they think are important or which they think contribute most to the achievement of the organisation's objectives. This manifests itself in the tendency:

a. to concentrate on those aspects in which they are knowledgeable and ignore those areas in which they feel inadequate.
b. to manage according to the documents that flow across their desks or as a result of their contacts with subordinates, peers and superiors.
c. to manage according to the pressures of issues of the moment.

Most of the Airlines' statistics are extracted from the Airline tickets. This includes sector and route statistics, route revenue computations, point of sale information and yield analysis. However, these tickets are also required for revenue accounting which is normally done manually as a matter of priority thereby relegating the collection or extraction of Airline statistics as a secondary role. The result is that vital statistics
required for decision making are delayed. Hence, a monthly report could be delayed for several months. Such information loses its value as pointed out above.

(2) Accounting and Financial System

The major problem with Air Zimbabwe's financial accounts is that the audited accounts are often published after over a year following the expiry of the financial year. For example, the 12th Annual Report for the year ended 30 June 1991 was published in September 1992. This is unacceptable. Such reports ought to appear three or four months or at most six months after the financial year end. The reason for the delay is believed to be top management laxity.

Air Zimbabwe, like most SADC airlines, has not developed a proper system for costing its services (SATCC & World Bank 1992: 88). Accurate and reliable cost information is required for making pricing, investment and other decisions (Brits & Smuts 1992: 149). These costs ought to be accumulated per cost centre, per route, per passenger or per aircraft type. In fact, a proper cost accounting system is a prerequisite for an efficient and effective management information system.
One major weakness of SADC airlines is that of generally poor financial performance. The profitability of the airlines vary with the markets served (domestic, regional and intercontinental) as well as between routes on the same market. SATCC & World Bank (1992: 48) shows that in the domestic market, all the SADC airlines were making losses of varying magnitude. This was attributed to low fares, relatively high operating costs and also in some countries such as Malawi and Zimbabwe, competition from surface transport. The Air Zimbabwe Annual Report (1992:4) reveal that to break-even, the Airline needs a load factor of 100 per cent on all its domestic routes while the average actual load factor was 72.23 per cent. Total losses for Air Zimbabwe amounted to Z$17.3 million out of total domestic traffic revenue of Z$34.3 million or over 50 per cent of total domestic traffic revenue.

Although the performance of SADC airlines in regional routes (within Africa) was comparatively better, four of the ten airlines still registered poor results. SATCC & World Bank (1992 : 48) attributed the generally better performance to suitable fare structures. Air Zimbabwe registered a healthy operating profit of just over Z$30 million out of total regional revenue of just over Z$97 million, or
about 31 per cent of total regional traffic revenue (Air Zimbabwe Annual Report 1992:4).

The performance of SADC airlines in the intercontinental market was generally poor, with one exception, LAM. SATCC & World Bank attributed this to low yields. Air Zimbabwe managed to make an operating profit but due to high interest charges and other overheads the overall result was losses.

The cost of SADC airlines to their countries is generally much worse than what is reflected in the poor airlines results. The airlines are net consumers of the scarce foreign exchange to a substantial extent. SATCC & World Bank (1992 : 49) estimate that 60 - 75 per cent of costs are incurred in foreign currency and yet only 15 - 25 per cent of revenue is generated in foreign currency. A significant proportion of the deficits were attributed to negative interline accounts with IATA Clearing House. This results from airlines accepting local currency for tickets which allow travel on foreign airlines which have to be paid for in foreign currency. SATCC & World Bank (1992 : 49) estimated the foreign currency deficits for the 10 SADC airlines to average about US$250 million annually. It is to be noted that, even though individual airlines may pay for such things as fuel and capital charges in local currency, these
costs are in fact a charge to the foreign currency reserves of a country.

The capital structure of SADC airlines is inadequate. This will be illustrated by a discussion of both the long term and short term capital structures with specific reference to Air Zimbabwe.

Ideally, an airline would need to match permanent or long term assets such as aircraft, ground equipment and buildings with long-term sources of capital such as long term debt, equity or provisions. There is also the need to have an optimum mix of debt and equity. An airline also needs sufficient liquidity to meet its day-to-day requirements without having to resort to seeking short term finance at possibly unfavourable conditions to pay for such things as salaries, spares or fuel. There is a need to adequately manage the working capital cycle to meet the needs of the organisation.

Table 5.1 shows Air Zimbabwe's balance sheet. The mismatch between fixed assets at Z$441.687 million and the long term sources of finance at Z$418.885 million is apparent. Only TAAG, Air Botswana, Lesotho Airways and Royal Swazi have an appropriate long term capital structure (SATCC & World Bank 1992 : 66).
The ratio of equity (Z$2.016 million) to long term capital (Z$418.865 million) for Air Zimbabwe is 0.5 per cent for the year ended 30 June 1991 (Table 5.1). The target ratio is between 30 and 80 per cent depending with the risk and marketability or soundness of the assets. Only TAAG, Lesotho Airways and Royal Swazi meet this target (SATCC & World Bank 1992; 66).

The other airlines, including Air Zimbabwe, require a substantial injection of equity capital. Due to the high proportion of debt in Table 5.1, the current portion of loans for Air Zimbabwe at Z$106.58 million plus net interest payments at Z$33.387 million would result in a net cash outflow from the Airline of a crippling Z$139.967 million which is almost two and a quarter times the Airline deficit for the year ended 30 June 1991.

Air Zimbabwe have insufficient short-term liquidity to meet its needs (Table 5.1). The Airline's liquid assets namely trade debtors, Government grant and cash at Z$189.908 million are much less than the current liabilities at Z$284.269 million. Hence, the Airline has a large overdraft of Z$51.969 million when the bank overdraft rates are quite high. Other airlines which were said to be experiencing acute liquidity problems were Air Malawi, Air Tanzania and Zambia Airways (SATCC & World Bank 1992; 63).
Table 5.1

Air Zimbabwe Corporation
Balance Sheet as at 30 June 1991

<table>
<thead>
<tr>
<th></th>
<th>1990</th>
<th>1991</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Z$ 000</td>
<td>Z$ 000</td>
</tr>
<tr>
<td>Capital Employed</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Reserve (Equity)</td>
<td>2016</td>
<td>2016</td>
</tr>
<tr>
<td>Loans</td>
<td>258558</td>
<td>312276</td>
</tr>
<tr>
<td>Advances</td>
<td>43675</td>
<td>167679</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>304249</td>
<td>481973</td>
</tr>
<tr>
<td>Less Accumulated Deficit</td>
<td>18275</td>
<td>63106</td>
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<tr>
<td></td>
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<td></td>
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<tr>
<td>Employment of Capital</td>
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<tr>
<td>Fixed Assets</td>
<td>301655</td>
<td>441687</td>
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Current Assets:
<table>
<thead>
<tr>
<th></th>
<th>1990</th>
<th>1991</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stores</td>
<td>80814</td>
<td>91539</td>
</tr>
<tr>
<td>Trade Debtors</td>
<td>52342</td>
<td>61293</td>
</tr>
<tr>
<td>Government grant</td>
<td>9000</td>
<td>26700</td>
</tr>
<tr>
<td>Cash Resources</td>
<td>27223</td>
<td>81915</td>
</tr>
<tr>
<td></td>
<td>169379</td>
<td>261447</td>
</tr>
</tbody>
</table>

Current Liabilities:
<table>
<thead>
<tr>
<th></th>
<th>1990</th>
<th>1991</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales in advance of carriage</td>
<td>19155</td>
<td>40101</td>
</tr>
<tr>
<td>Creditors</td>
<td>27129</td>
<td>32636</td>
</tr>
<tr>
<td>Current portion of loans</td>
<td>76290</td>
<td>106560</td>
</tr>
<tr>
<td>Interest payable</td>
<td>1998</td>
<td>33387</td>
</tr>
<tr>
<td>Bank overdraft</td>
<td>51221</td>
<td>51969</td>
</tr>
<tr>
<td>Provision for aircraft overdraft and maintenance</td>
<td>9267</td>
<td>9594</td>
</tr>
<tr>
<td></td>
<td>185060</td>
<td>284269</td>
</tr>
</tbody>
</table>

Net Current Liabilities               | 15681 | 22822 |
|                                      | 285974| 418865|

137
Air Zimbabwe had net current liabilities of Z$22,822 million for the year ended 30 June 1991 indicating poor working capital management. SATCC & World Bank (1992 : 67) report that with the exception of Air Botswana and Royal Swazi the rest of the SADC countries had negative working capital requirements.

The above discussion show that all SADC airlines, to varying degrees, are in serious financial problems. The majority of the airlines need a substantial injection of new equity estimated by SATCC & World Bank (1992 : 68) at US$75 million to improve liquidity and reduce short and long-term debt. The liquidity problem ties up a lot of management time and effort in trying to solve crisis to meet short term financial needs such as for payment of salaries or urgently needed spares rather than concentrating on basic management issues.

(3) Pricing System and Yield Management

Domestic fares in almost all SADC countries are controlled by Governments (SATCC & World Bank 1992 : 60). The fares are often kept very low. In Zimbabwe, for instance, a load factor of over 100 per cent is required to break even. However, the current moves to liberalise and restructure the economy in Zimbabwe and other SADC countries such as Tanzania, Malawi and Mozambique should result in gradual decontrol of domestic air fares. Botswana is one of the
exceptions in that they already allow airlines to charge fares which allow an adequate return on investment. However, in Botswana, general aviation dominate the services. SATCC & World Bank (1992 : 61) recommend some steep rises in fares in some countries to improve yields and ensure profitable operations. In Lesotho, a fare increase of 100 - 125 per cent was said to be necessary while in Malawi a 50 per cent rise on the Blantyre - Lilongwe route and 100 per cent on the Lilongwe - Mzuzu route was recommended. Mozambique was said to require a fare increase of 150 - 300 per cent while in Zimbabwe a 50 per cent rise on longer routes and 100 per cent on shorter routes was needed. In Tanzania, fares for residents were said to need to rise by about 50 per cent (non-resident fares were said to be adequate). Fares in Angola were said to be distorted as a result of their extremely overvalued exchange rate but a dramatic rise in fares was recommended.

In the regional market, fares are determined through IATA negotiations. Generally, the fares are adequate (SATCC & World Bank 1992 : 62). The major problem, however, is that there is significant dilution of fares which reduces yields due to unfavourable prorate agreements, the slow adjustment of fares in devaluing local currencies as well as the tendency of some central banks to block the repatriation of funds without assisting the airline to bear the costs of devaluation during the periods that the revenue is blocked. Addressing these problems would result in the improvement

Yields in the intercontinental market are generally too low due, according to SATCC & World Bank (1992: 63), to poor business and first class load factors and excessive discounting to obtain adequate load factors, LAM being the only exception. Another reason for poor yields was said to be poor yield management as well as relatively low northbound fares from Harare or Lusaka to Europe as shown in Table 5.2 below.

Interline traffic is important in all SADC airlines. This is due to the fact that a large proportion of SADC airline business (with few exceptions) is interline because of the extremely limited route network (SATCC & World Bank 1992: 88 – 89). However, the process of interline accounting is very involved requiring highly qualified personnel. In

<table>
<thead>
<tr>
<th></th>
<th>FARES (US DOLLARS)</th>
<th>FARES PER KM (US CENTS)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ONE-WAY</td>
<td>APEX RETURN</td>
</tr>
<tr>
<td></td>
<td>FULL COACH</td>
<td></td>
</tr>
<tr>
<td></td>
<td>NORTH</td>
<td>SOUTH</td>
</tr>
<tr>
<td>HARARE</td>
<td>829</td>
<td>1417</td>
</tr>
<tr>
<td>LUSAKA</td>
<td>1202</td>
<td>1267</td>
</tr>
<tr>
<td>JO’BURG</td>
<td>1134</td>
<td>1246</td>
</tr>
</tbody>
</table>

Table 5.2 Intercontinental fares between Southern Africa and Europe (SATCC & World Bank 1992: 64).
addition, foreign exchange losses or gains can take place due to interlining. Few if any SADC airlines have the skills and resources to determine if the debits charged against them were correctly computed. SADC airlines incur significant foreign exchange liabilities since the airline may have received local currency for the tickets used by foreign carriers (SATCC & World Bank 1991: 90 - 91).

f. Style

Air Zimbabwe had been without a substantive General Manager since August 1991 to October 1993. Therefore, no style of management could be discerned during this period. The previous General Manager, Mr F Musara, had been dismissed on charges of corruption and mismanagement. Prior to his appointment, there had also been a relatively long period when the Airline was without a substantive General Manager following the dismissal of the previous General Manager, Mr Mutyambizi, in early 1986 on charges of corruption and mismanagement. In fact, a Committee of Inquiry into Air Zimbabwe Corporation under the chairmanship of Justice L.G. Smith had been convened and reported in July 1986. They substantiated, among other things, the allegations of incompetence, corruption and mismanagement against Mr Mutyambizi, the dismissed General Manager (Zimbabwe 1986: 39 - 51). Mr Mutyambizi had himself been appointed General Manager in December 1983. Prior to this, there had been an

The above discussion gives a picture of corporate instability of Air Zimbabwe for over a decade. The two dismissed General Managers left a legacy of mistrust and lack of proper leadership and direction to the Airline. The Ministry of Transport during this period also contributed to the problems by constantly interfering with the day-to-day running of the Corporation, often by-passing the Board of Directors, by issuing directives on pricing, appointments and investment policies. The Board was not being given enough autonomy to exercise their powers (Zimbabwe 1986 : 73 - 77).

g. Superordinate Goals (Shared Values)

The literature research on SADC airlines revealed that no values have been consistently articulated by top management relating to, for instance, the quality of service or cost reduction. There has not emerged a dynamic leader to formulate strategies and ensure their implementation as well as producing an atmosphere conducive to the formulation of corporate culture and values.
5.2.2 Strengths

a. Structure

SADC airlines are largely owned by the Governments. This has enabled the airlines to receive subsidies when they face financial difficulties. This has also enabled the airlines to procure expensive capital equipment such as aircraft and related ground support equipment with Government guarantees.

SADC airlines are members of IATA. This has allowed them to participate in the coordination of technical standards and services with other airlines and they benefit from training and technical assistance programmes.

b. Skills

SADC airlines have the human resources to carry out most of the specialised functions necessary to keep aircraft flying. Pilots, engineers and technicians are trained and licensed to international standards as required by law. The civil aviation administration authorities carry out periodic supervision and inspection to ensure that the stringent training requirements are adhered to (SATCC & World Bank 1992: 78 - 79). Some of the airlines such as Air Zimbabwe have advanced and well equipped training facilities.
c. Staffing

Within SADC countries, there are people who are well educated and familiar with what is required to run airlines effectively. Should the SADC airline environment improve, that it, if the airlines are not bound by civil service regulations so that they can be able to recruit, promote and adequately remunerate competent personnel, then such persons may find it worthwhile, rewarding and challenging to work for SADC airlines. Such are the people who can comprise the airline boards and top management and who can spearhead the turnaround of their airlines.

d. Systems

Some SADC airlines such as Air Zimbabwe have considerable computer capacity which can be exploited to produce the required MIS, CRS and automated ticketing systems.

SADC countries have personnel who are trained and qualified in accounting and finance. Such personnel should be able to produce timely and relevant financial accounts should the environment permit, for instance, if top management specify their information requirements, set deadlines and have a free hand in recruiting the right calibre of personnel and adequately remunerate them without political or other interference.
From our research on Air Zimbabwe, other functions such as the maintenance systems, quality control systems, pilot, technical and cabin crew training systems appear to be conducted adequately and professionally. Manuals appear to be adequate and are continually updated.

5.3 Summary

The 7-S model has allowed the examination of the internal environment and highlight some weaknesses and some strengths of SADC airlines especially Air Zimbabwe. Some of the weaknesses included a tall organisation structure, a management style which is at odds with the cost leadership strategy, overstaffing, lack of adequately qualified personnel in the administrative areas, low productivity, failure to institute adequate systems to deal with the information and accounting requirements and the absence of superordinate goals to bind the organisation together. The airlines also face acute financial problems. Some of the strengths include membership of IATA, qualified and competent personnel in specialised functions of airlines, availability of considerable computer capacity in some airlines which could be exploited to produce the required MIS, CRS and automated tickets, as well as adequate maintenance systems, pilot, technical and cabin crew training systems.

5.4 External Appraisal

In this Section the external environment, particularly of Air Zimbabwe, is examined, that is, economic, technological, social,
political, ecological and legal within the context of trade liberalisation which the Zimbabwe Government has embarked upon. The analysis is aimed to determining threats to SADC airlines as well as opportunities which can be exploited while employing the cost leadership strategy.

5.4.1 Threats

a. Economic Environment

With the advent of trade liberalisation and the Economic Structural Adjustment Programme (ESAP), the Zimbabwe Government is less inclined to subsidize loss making parastatals. In fact, since the beginning of ESAP in 1990, some parastatals such as the Zimbabwe Mining Development Corporation and the Urban Development Corporation, to name just two, have been commercialised. There is an urgent need for Air Zimbabwe to be profitable to guarantee its continued existence, however laudable its social, economic or strategic benefits to the country may be.

With trade liberalisation, the Government is under intense pressure from external donors to eliminate loss making parastatals. The country needs external (as well as internal) investment badly and yet investors are not queuing to invest in Zimbabwe. New opportunities for them abound in Eastern Europe and elsewhere. There are increasing calls for the encouragement of a market economy
without the vestiges of the command economy which include such parastatals as Air Zimbabwe.

One aspect of the operating environment within SADC has always been the chronic oversupply of capacity (Southern African Economist 1988 : 8). When Zimbabwe embarked on trade liberalisation, they also were compelled to allow access into the market of more carriers. Since early 1990, many new carriers have started services into Zimbabwe. These include Air Portugal (TAP), Royal Dutch Airlines (KLM), Air France and Swissair. The large and well developed and relatively efficient airlines have added to the chronic oversupply of capacity as well as increasing the competition.

Presently, Harare is one of the major hubs within SADC. However, with the normalisation of the political situation in South Africa, the importance of Johannesburg as a major hub is increasing further, completely overshadowing Harare.

b. Technological Environment

The majority of aircraft in the SADC airline fleet are ageing (Vide 4.2.3 (a)). There is need to re-equip the SADC fleet for a number of reasons namely:

i. Newer aircraft like the Boeing 767 and MD-11s have better fuel economy than older aircraft like the
Boeing 707s, DC-8s and the DC-10s still being operated by some SADC airlines. They also have lower maintenance costs per unit of output. The above two aspects result in lower variable operating costs.

ii. The older generation of aircraft do not meet the noise limitations stipulated in Europe and the USA which are the major intercontinental markets for SADC airlines.

iii. SADC airlines have to compete with European carriers employing the new generation of modern aircraft such as the MD-11s operated by Swissair and the Boeing 747-400s operated by British Airways, Quantas and Air France.

The capital cost of new aircraft is very high indeed especially compared to the book values of the older aircraft they will be replacing. Most SADC airlines, which are technically bankrupt as discussed before (Vide 5.2.1 e (2)) and are net consumers of scarce foreign exchange, do not have internally generated funds to purchase new aircraft. The SADC governments have generally not fared any better with huge external debts and relying a lot on aid from the developed countries. Various financing schemes have been employed to purchase new aircraft. As discussed before, Air Zimbabwe has had to largely rely on borrowing from local and external financial institutions.
However, both these sources of debt capital have proved to be very costly due to the high interest rates.

In addition to the high capital cost of new equipment, there is also considerable expenditure on training and retraining of personnel and provision of facilities such as hangars and maintenance workshops.

SADC airlines are also lagging behind the major international competitions on the provision of sophisticated computer reservation systems (CRS) and the use of automatic ticketing machines. CRS are a critical distribution system of the airline product (Johnson 1989: 257 - 262). The 'mega-carriers' make their CRS very attractive by including, among other things, car rentals, hotels, airport information and special requests and ensure that the CRS screen display is biased in favour of their airlines (Hofton 1989: 309 - 311). The extensive database of the CRS allow more accurate forecasting of demand which enables the airlines to tailor their services to the expected demand. Tickets can be skilfully discounted on off peak or thin flights to boost demand and keep fares high on peak demand. This technique of yield management can significantly increase load factors and airline profitability.

The European competitors of Air Zimbabwe have automatic ticketing machines. These are much faster and efficient
compared to the manual system largely employed by Air Zimbabwe and the majority of SADC airlines. Exceptions include TAAG which have automatic ticketing systems at home and abroad (SATCC & World Bank 1992:80). The more efficient and faster automatic ticketing system results in better customer service than if the manual system is employed.

c. Social and Political Environment

SADC countries which are all relatively new nations appear to regard airlines as a symbol of their sovereignty and independence as well as prestige (Southern African Economist 1988:3). Although the airlines are generally required by their Enabling Acts to at least break - even and operate on commercial lines, these goals appear to be secondary to the need to fly the national flag at apparently any cost. However, the dismal performance of SADC airlines, the need for scarce resources elsewhere within the SADC countries and pressure from donor communities has prompted a re-evaluation of the role of the national airline in the socio-economic development of SADC countries.

There are some politicians, commentators, academics and others within SADC who argue that the increase in tourism has more costs than benefits to the countries. It is sometimes argued that increased tourism threatens the erosion of the traditional values and culture of the
population especially those who live in the vicinity of tourist resorts. It is often argued that the growth of tourism ought to be gradual and controlled to avoid being swamped by foreign cultures.

The SADCC was formed in 1980 with the intention of, among other reasons, promoting transport and communication among the countries. Although some progress have been made in rationalising air routes and schedules and increasing the number of operations among SADC capitals, progress has been slow and insignificant (Southern African Economist 1988 : 5 - 6). SADC airlines deny each other fifth freedom traffic rights. They tend to buy aircraft with little regard to commonality or available regional capacity thereby making it difficult to cooperate in such areas as deep maintenance (C and D checks), equipment and facility sharing. Bilateral agreements with non-SADC airlines appear to be more flexible on such aspects as fifth freedom traffic and capacity sharing (Pocock 1993b : 7 - 8).

d. Ecological Environment

There is a worldwide increase in the importance being attached to the issues of conservation and other environmental problems. The construction and operation of airports results in a number of ecological problems. Greenfields are replaced by concrete. Areas that could be employed for agriculture are used for runways, taxiways,
hangars, airport buildings and other facilities. Aircraft produce noise which people living near the airport are subjected to.

The regulation of aircraft noise is an important and significant issue to all concerned. To many SADC airlines, it represents another unwelcome restriction on their commercial operations and a serious threat to their viability. Some SADC aircraft do not meet the ICAO Annex 16 Chapter 2, let alone Chapter 3 requirements. Chapter 1 aircraft such as Boeing 707s and DC-8s are still flying in SADC fleets. The move towards Chapter 3 compliance are underway and SADC airlines would need a major re-equipment exercise to meet these requirements within the next decade if the airlines wish to continue operations into the European and North American markets.

e. Legal Environment

All SADC airlines were decreed into existence by their Governments. As mentioned before, the Enabling Act for Air Zimbabwe requires the Airline to operate on sound commercial principles but then goes further to severely limit the management's freedom of action to formulate and implement strategies they deem necessary.

Air transport within SADC is regulated through a system of bilateral air services agreements or treaties between the
nations. These agreements stipulated the frequency of services and capacity on a given route as well as the system employed to compensate any national airline which is unable to exercise its traffic rights under the agreement. Regional and intercontinental air fares are set in IATA tariff conferences subject to the approval of the respective Governments. Fifth freedom rights among SADC countries are rare. Hence, the regulatory framework within SADC is protectionist and this is perhaps one of the major reasons why the capacity within the region is well beyond what would be expected in a more competitive environment.

5.4.2 Opportunities

a. Economic Environment

The existence of a regional organisation namely SADC gives an opportunity for SADC airlines to closely cooperate or integrate with a view to gaining economies of scale. This would enable a more efficient and coordinated service to be established which would place the airlines in a better position to fight competition from the ‘mega carriers’ from the developed countries and elsewhere. The coordinated or integrated airlines could reduce the excess capacity within SADC by selling off excess aircraft and rationalise their fleets.
SADC Governments could take advantage of the current economic adjustment programmes to come up with policy changes which would result in the commercialisation and ultimately the privatisation of SADC airlines. To make the airlines attractive for privatisation, the Governments may have to write off the existing heavy debts. Privatisation should overcome the current problem faced by SADC airlines of being undercapitalised by attracting equity capital. A commercialised or privatised airline would motivate management to operate on commercial lines and be more efficient and productive. Such a policy change would enable airlines to shed off excess manpower and reduce costs by discontinuing services on uneconomic routes, among other benefits.

The routes operated by SADC airlines could be expanded to include destinations in North and South America, Middle East and South East Asia due to the increasing economic ties with these regions since there are very few or no direct links with these destinations. This should be considered only after a thorough market research about the viability of the routes.

Labour costs within SADC are very low compared with their competitors who are largely from Europe. This provides an opportunity for SADC airlines to provide adequate levels of service at comparatively very low cost. This could enable
them to out compete their rivals and at the same time provide a profitable service.

One area where the performance of SADC airlines was comparatively good is in the regional markets (within Africa) with six of the ten airlines either breaking even or making a profit (SATCC & World Bank 1992 : 48). SADC airlines are more knowledgeable about the customer needs within the region than, say, mega-carriers from outside Africa. The labour costs within SADC are also much lower than those in the developed countries. SADC airlines could take advantage of these strengths to focus their efforts on the regional markets and offer services tailored to the needs of the regional market at much lower costs than their competitors.

The performance of SADC airlines in their domestic markets is poor (Vide 5.2.1.e (3)). This is because SADC Governments tend to keep their domestic fares very low. SADC Governments can take advantage of the current economic structural adjustment programmes to decontrol domestic fares and give the airlines a free hand to determine their own fares. This would provide an opportunity for the airlines to provide viable services only and discontinue services on those routes which may be unprofitable.

Should SADC airlines be commercialised or privatised, management should take advantage of their greater freedom
of action to train their personnel and introduce appropriate incentive schemes for them based on performance to motivate them to work harder and increase productivity. For example, pay could be linked to performance. This would also require management to put in place effective personnel appraisal systems. Top management on their part would need to be given appropriate performance measures and targets which should be regularly monitored by the airline boards.

b. Technological Environment

SADC airlines can take advantage of their present computer capacity or acquire more computers to revamp their MIS. This would include carrying out a detailed study of their MIS requirements. Management need to clearly define their information requirements. Then, an MIS system could be designed with the objective of reducing management’s paperwork and focusing management’s attention on the critical performance indicators necessary to ensure the efficient running of the airlines.

For economy, there is need for a common database for use by all managers. This would ensure compatible decisions. The actual results would be compared with budgeted or some predetermined standards. Management attention would then be focused on dealing with variances or exceptions rather than perusing masses of data. This should result in the
resolution of problems timely before they become out of hand or unmanageable.

SADC airlines could ensure that the MIS is more timely by replacing the present system of largely manual revenue accounting and ticketing by automatic ticketing and computerized revenue accounting. However, it may take time to acquire the equipment, train people and get them proficient in their use.

Another way round delayed reports is to separate the accounting information from statistical information at source. This can be achieved by ensuring that, for instance, at the point of departure of a passenger or cargo, statistical data such as the origin and destination and traffic mix information is recorded on a prescribed form and despatched using a telex or telefax message to the airline headquarters. This is the system of statistical load summary which was developed by IATA and is employed by most international airlines (SATCC & World Bank 1992: 133). The information can be processed on computers at airline headquarters from which can be produced traffic statistics regularly to enable timely decisions to be made by management.

Some prescribed airline information is required by civil aviation organisations regularly such as IATA, ICAO, AFRAA, AFRAC, ECA and the PTA. Our study showed that very few
SADC airlines submit this information at all and for those that do, the information is often delayed or incomplete (Vide 1.5.2). The above procedure, if adopted, may also assist in the collection, processing and dissemination of information to the civil aviation organisations.

Some SADC airlines have some relatively modern aircraft such as the B 767 operated by Air Zimbabwe which meets the ICAO noise standards. This provides the airline with the opportunity to fly to any destination they wish such as those in North America and Europe with strict noise compliance requirements.

c. Social and Political Environment

Presently there are rapid social and political changes within SADC countries following the collapse of Communism in the former Soviet Union in the mid 1980s and the release of Nelson Mandela from prison followed by democratic elections in South Africa in the early 1990s. There are widespread calls within SADC for democratic Governments and accountable public institutions. The general public are less tolerant of loss making Government institutions which are propped up by their hard earned taxes. Such an environment provides an opportunity for the political leadership within SADC states to legislate for policy changes which should facilitate more cost effective, efficient and profitable operation of airlines. Such
policy changes include commercialisation or privatisation of airlines and facilitating the integration or close cooperation among SADC airlines.

In some SADC countries, airlines play a critical role in keeping the nation together due to the poor surface transport and communication infrastructure. In a large country like Tanzania and Angola, air transport is the cheapest and only means of reaching some parts of these countries. Roads and railway infrastructure take a very long period to construct and are very costly. Telecommunications in most SADC countries are underdeveloped and benefit a tiny proportion of the population. This provides an opportunity for the airlines concerned to justify their continued existence.

The pre-independence air routes were largely in the north-south direction, from the colonies in Africa to the imperial powers in Europe. With the advent of independence, the new African states attempted to connect themselves to each other, both north-south and east-west. This has improved interaction among mainly African leaders. A Tanzanian president wishing to visit Namibia no longer need to go via a European capital but can fly their national airline direct to Namibia. The present route network could be expanded with focus being to facilitate trade among SADC states.
Air transport within SADC can be justified by strategic considerations. Countries like Botswana, Zambia, Malawi and Zimbabwe are land-locked. Should their routes to the sea be blocked for any reason, air transport would be used as an outlet to the outside world, for example, to transport urgently required spare parts and some valuable commodities which are usually transported by road, rail or sea transport. The recent turbulent political environment in some SADC countries such as Angola and Mozambique as well as South Africa through which some major transport routes to the sea pass through, have emphasized the need for air transport as an alternative transport mode.

5.5 Summary

The analysis of the external environment of SADC airlines revealed several threats and opportunities. The threats include oversupply of capacity, ageing fleets, poor distribution system (inadequate CRS), some aircraft which do not meet the current ICAO noise stipulations, inadequate cooperation among SADC states and intense competition from mega carriers largely from Europe. There are a number of opportunities which could be exploited to overcome the weaknesses and threats facing SADC airlines. Airlines could be commercialised or privatised. Several benefits could arise from this. These include airline management subject to market discipline without political interference, injection of equity capital into airlines and the ability to recruit high calibre of personnel to run the airlines. SADC airlines could take advantage of their low labour costs to offer
An analysis of the internal environment of SADC airlines revealed several weaknesses. These include a tall organisation structure, no clear strategic direction, Ministerial interference in the day-to-day operations of airlines, overstaffing, low-productivity, prevalence of unskilled personnel, under-utilised facilities, ineffective management information systems, ageing fleets, excess capacity, under capitalised airlines, heavy and crippling debts, low fares in some markets, foreign exchange losses due to interlining, poor financial performance (persistent losses) and generally poor yields in most of their markets.

The few strengths of SADC airlines include the existence of some qualified personnel in certain areas, government support, some modern fuel efficient aircraft like the Boeing 767s and Fokker 50s, some well developed training facilities in some countries like Zimbabwe and some relatively low wage levels which could allow SADC airlines to compete against 'mega-carriers'.

The financial performance of SADC airlines is poor with all the airlines incurring losses. The fiercest competition for SADC airlines are faced in intercontinental routes. In regional routes, the performance of SADC airlines are comparatively better with the majority of airlines either making a profit or breaking even. In
domestic operations, all SADC airlines are incurring losses largely as a result of Government control on fares. It appears that if airlines are given a free hand to adjust fares in line with costs domestic fare adjustment could result in profitable operations.

The financial analysis of SADC airlines reveal that SADC airline operations are likely to be profitably operated if the airlines focus their operation on regional routes and domestic routes. In intercontinental operations, the competition is growing and is fierce. SADC airlines are not adequately equipped to compete effectively against the more sophisticated and better managed 'mega carriers' from Europe and elsewhere in intercontinental routes. Hence the cost focus strategy may be the most viable for SADC airlines.

The analysis of the external environment revealed threats which include intense competition from 'mega-carriers', low aircraft utilisation, excess capacity, small markets, ageing fleets which are costly to replace, lack of adequate cooperation among SADC airlines, pressures to eliminate loss making parastatals and frequent government interference in operational decisions. However, the opportunity exists for increased regional cooperation on various spheres of airline operation. SADC airlines can take advantage of their relatively low labour rates to gain a competitive edge over airlines from the developed countries. On regional markets, SADC airlines can take advantage of their local knowledge of SADC markets to beat the competition. There are opportunities of increasing labour productivity and reduce over-staffing by cooperation in training, maintenance, planning and scheduling of aircraft and seeking new
markets to improve aircraft utilisation. This should enable the cost focus strategy to be profitably employed by SADC airlines.
6. STRATEGY ANALYSIS AND SELECTION

6.1 Introduction

In Chapter 2, ideal strategies for the success of airlines were discussed. In the third chapter, three airlines which did apply some of the ideal strategies from Chapter 2 were discussed. The lessons learnt from the successful turnarounds of BA and SAS together with conclusions drawn from the study of SIA in the same chapter revealed possible strategies which could, with appropriate modifications and adaptations, be adopted by SADC airlines.

In the fourth chapter, pragmatic strategies to turnaround SADC airlines, namely the cost leadership or cost focus strategies, were derived. This was followed by the study of the internal and external environments of SADC airlines in Chapter 5. The analysis of SADC airlines revealed several weaknesses which include tall organisational structures, poor management style, overstaffing, inadequately qualified personnel, low productivity, inadequate management information systems, the absence of shared values to bind the airline together as well as acute financial problems. SADC airlines are facing intense competition from the sophisticated mega carriers largely from Europe. However, the opportunities for cost effective operations were also highlighted. These could arise from closer regional cooperation resulting in rationalised services and the elimination of excess capacity, among other benefit.
In this chapter, a discussion and analysis of the recommended strategy for adoption by SADC airlines namely the cost leadership strategy focusing on regional/domestic operations is carried out.

6.2 Cost Leadership Strategy

The earlier discussion showed that large airlines or the so-called "mega - carriers" enjoy economies of scale and therefore have cost advantages over tiny airlines like those of SADC. It would appear that for SADC airlines to enjoy economies of scale, they need to closely cooperate or even to merge into a single airline. Even if a merger of SADC airlines were to take place, the combined airline with about 63 aircraft (Vide 4.2.3) would be much smaller than the large airlines like British Airways (BA) with an operating fleet of 241 aircraft plus 68 on order plus 63 options (BA Annual Report 1992-93:46). In fact, SIA with a total fleet in operation of 57 aircraft with 34 on firm order and 28 options (SIA Annual Report 1992-93:49) is much larger in terms of capacity on offer than the combined SADC fleet since they largely operate wide - bodied jets like the Boeing 747s and Airbus A310s and A340s. A medium sized airline like Cathay Pacific Airways with a total operating fleet of 49 aircraft comprising exclusively Boeing 747s and L1011 Super Tristars (Cathay Pacific Airways Limited Annual Report 1992:70) also has many times the capacity of the combined SADC fleet.

Seventeen years since the formation of SADCC (later SADC), little progress has been made towards meaningful cooperation among SADC states. In any case, the poor financial results of SADC airlines over
a long period of time tend to show that the airlines are poorly managed, among other problems. Hence, combining ten poorly managed airlines to form one large airline will not necessarily result in miracles. In fact, it may be far-fetched to expect the Chief Executive Officer (CEO) of Air Zimbabwe to have the same world views or management concepts and perceptions as a CEO of TAAG or LAM.

Apart from political (ideological) differences among SADC states, there are also social and cultural differences which are likely to frustrate efforts for close regional cooperation. For example, the work ethics and time discipline which would affect the quality of airline services differ.

Therefore, although close airline cooperation within SADC could result in large cost savings as discussed earlier, such close cooperation is not expected in the short or medium term (within the next ten years), if ever at all. Hence, other more workable cooperative efforts need to be explored.

A study of SIA (Vide 3.4.8) showed that cooperative ventures work best when like minded airlines come together. SIA formed global alliances with Delta Airlines and Swissair, all three airlines being world renowned for a high quality of service, sound balance sheets, consistent profitability and sound employee relations.

The first step for SADC airlines may be to forget about narrowing their cooperative efforts within SADC. SADC and its predecessor, SADCC, was formed by politicians for largely political reasons. At
the time of its inception, there was one common enemy namely South Africa. It was found necessary then to attempt to mobilize all resources including political, economic and technological to face a formidable foe, which then was perceived to be South Africa. With the disappearance of that enemy, SADC still remains and its relevance is increasingly being questioned.

Individual SADC airlines may have to consider carefully choosing partners not only from within SADC but from Africa or any strategic part of the world. Of course, it may be very unlikely, for instance, that SIA would be interested in coming into partnership with LAM since SIA may feel that they have nothing to benefit from Mozambique.

An example of a possible cooperative arrangement could be between Air Zimbabwe, Air Botswana and Air Namibia. These airlines are from countries which were all former British colonies, are English speaking, have democratic Governments and by SADC standards, they have relatively stable economies. Air Namibia has a Boeing 747 SP which could be pooled for possible services to new markets such as in the USA or the Far East where there are no services at present. Air Namibia and Air Zimbabwe have Boeing 737s for regional services. Routes, schedules and facilities as well as maintenance of this aircraft can be rationalised or shared as well as training facilities. Air Botswana has the ATR-42s as well as the BAe 146 (like Air Zimbabwe) which are suitable for shorter haul operations where the Boeing 737s may be uneconomic. For example, for routes within some parts of Zimbabwe, such as Harare to Bulawayo with a stage length of about 400 km, the Boeing 737 has proved to be uneconomic (SATCC &
World Bank 1992 : 10) and the ATR-42 could be economically employed in a combined airline.

The above scenario of a cooperative arrangement among three airlines should be much easier to agree upon than one involving ten SADC countries. Such an arrangement could be operational within a relatively short period of say three years. The specific structure of the arrangement may not be very critical as long as close cooperation and sharing of facilities and rationalising of operations takes place.

The three airline scenario depicted above would still result in a tiny airline but most likely much stronger than the individual airlines. This arrangement would be in a much better position to seek strategic marketing alliances elsewhere, for example, with European or some Far Eastern airlines such as Cathay Pacific or SIA.

To achieve cost leadership, it would be critical for some alliance or cooperative arrangements to be made with some of the sophisticated airlines in Europe, America or the Far East. This would allow SADC airlines to have access to the technology and management methods to enable the airlines to compete effectively in international markets. It is unlikely that SADC countries or any combination of SADC airlines would have the skills and resources to carry out marketing research and the actual international marketing to reach the customers in the developed world. Partnership with airlines from the developed or newly industrialised countries may be cost effective.
Although there is a lot of scope for SADC airlines to cut their costs significantly, this may still not be sufficient to enable them to effectively compete the various ‘mega-carriers’ on intercontinental markets. Any attempts to erode the dominant position being enjoyed by the large airlines from outside SADC are likely to invite violent reaction by these more experienced and sophisticated airlines. The result could be failure by SADC airlines to achieve optimal results in intercontinental markets such as between SADC and Europe. Therefore, the cost leadership strategy is not recommended in intercontinental markets (Vide 5.6).

6.3 Focus Strategy

The majority of SADC airlines are profitable on regional routes while domestic and intercontinental routes are largely unprofitable (Vide 5.2.1.e (2)). It may be prudent to build on this success on regional operations where there is less competition from international ‘mega-carriers’ and where SADC carriers are very knowledgeable about the market needs and how to satisfy those needs. In these regional routes, SADC carriers could be operating feeder services to regional hubs such as Harare, Lusaka, and Johannesburg within SADC as well as Nairobi, Addis Ababa, and others outside SADC. To avoid dilution of yields through predatory competition from the ‘mega-carriers’, legal restrictions can be imposed to limit competition by airlines from outside SADC on regional routes.

Domestic operations within SADC could be made profitable by fare adjustments (Vide 5.2.1.e(3)). Air fares in some countries are kept
artificially low as a result of Government policy. Some unprofitable routes which are socially desirable could be operated but with a specific Government subsidy agreed to in advance for the specific routes. Otherwise unprofitable domestic routes, especially in countries like Zimbabwe where surface transport facilities are well developed and relatively efficient, ought to be terminated.

SADC airlines would then focus their operations on both regional and domestic services profitably. Regional cooperation in areas such as aircraft maintenance, training of personnel, coordination of services and scheduling and sharing of facilities would enhance airline performance further, even though the airlines may still continue to operate as single separate entities.

The cost focus strategy appears to be the viable and practical turnaround strategy for SADC airlines as there is a lot of scope to reduce costs and achieve profitable airline operations.

Recommendations to reduce costs can be summarised as follows:

a. Airlines ought to seek partners inside or outside SADC for economies of scale. These would be achieved through, among other things, the elimination of duplicated services, the reduction in the number of sales offices, the closure of redundant offices, centralised administration, staff reductions, coordinated functions, shared facilities such as aircraft maintenance and training facilities, and the sale of excess aircraft to reduce present excess capacity.
or retiring the older, fuel inefficient aircraft such as the F-27s, DC-8s and B-707s. The decision to form or facilitate the formation of the cooperative ventures such as airline mergers will need to come from the top policymakers in Government. The Enabling Acts such as the Air Zimbabwe Corporation Act, would need to be amended to facilitate this.

b. It is necessary to save costs through simplification of reservation and ticketing procedures. The largely manual ticketing services could be automated as well as the passenger check-in/out and baggage handling. Production efficiency could be enhanced through reduction in staff numbers.

c. Aircraft standardisation would result in service efficiency (Vide 4.2.3). It would also facilitate cooperation and the reaping of economies of scale among SADC partners.

To ensure service and production efficiency, it is also recommended that aircraft utilisation be improved. To achieve this, it would be necessary to have a coordinated route structure with an efficient hub and spoke system. Cooperating regional airlines should undertake joint scheduling of operations to ensure good connections for traffic to and from regional hubs. The correct aircraft type and size for the traffic need to be employed. There is also need for an even distribution of traffic during the week with increased frequencies where it is possible to do so. Aircraft utilisation ought
to be at least at par with international standards of about 2400 hours per annum (SATCC & World Bank 1992 : 7).

In domestic operations, it is recommended that a more commercial operating environment should replace the present system of tightly regulated fares (Vide 5.2.1.e(3)). Airlines need to be given authority and freedom to set tariffs to allow them to adjust them quickly to market changes. Fares ought to be set on a commercial basis with higher fares for shorter distances to cover the higher unit costs in place of the present flat rates. Promotional fares with appropriate restrictions can be set to cater for discretionary traffic. Airlines management should be allowed to effect automatic fare adjustments with changes in such variables as fuel prices, interest rates and exchange rates. Airlines should only operate commercially viable domestic routes. Where Governments may feel it is necessary to operate socially desirable but uneconomic routes, they should provide the airline with a specific grant or other form of assistance for the specific route and for a stipulated level of performance.

6.4 Internal Alignment

The internal airline environment of SADC airlines would need to be changed so that the recommended strategy of cost focus can be effectively implemented. It is necessary that all the seven elements of the McKinsey 7-S framework are in unison to make the strategy work effectively as described below.
6.4.1 Structure

An organisation structure without too many layers of management and with shorter lines of communications is necessary for cost effective operations. Some posts especially in the administrative areas need to be reviewed with the objective of possibly abolishing them to minimise costs through production efficiency (Vide 4.2.2). These changes are likely to be implemented if the airlines are run on commercial lines with minimal Government intervention except in areas of policy only (with full consultations with airline management).

6.4.2 Strategy

The top management of SADC airlines ought to formulate and implement a cost leadership strategy focusing on regional and domestic operations. The strategy ought to be designed so that all airline activities need to be at the lowest possible costs. Top management need to lead by example and the need to keep costs down ought to be communicated to all employees of the airlines. Employees at all levels should be encouraged to participate in coming up with ideas and programmes to minimise costs while not sacrificing safety and acceptable standards of service. The human resource policy ought to ensure that employees who achieve performance targets at minimal costs are adequately rewarded and encouraged.

Sight should not be lost of possible competition from surface transport and strategies should be designed to ensure that cost effective ways to successfully beat the competition are devised.
the other elements of the McKinsey 7-S framework need to be aligned
to the cost leadership strategy focusing on regional/domestic
operations.

6.4.3 Skills

To address the skills and staffing related problems within SADC
airlines, it is necessary to properly formulate a human resources
policy. Programmes to recruit, train, develop staff and to reward
staff adequately would need to be implemented. To minimise costs,
airlines need to pool their resources together and cooperate either
within the context of SADC or just a group of like minded airlines
with partners in or outside SADC. This is likely to be much more cost
effective than either having individual airlines setting up the
extensive and costly training facilities which are necessary or
sending personnel to developed countries to undertake general training
which could inexpensively be undertaken within SADC. The training
would also be tailored to the needs of the domestic or regional
markets.

6.4.4 Staffing

The SADC airline boards ought to be staffed by personnel of
proven ability and competence. The qualifications of board members
ought to be specified in advance so that the composition of the board
reflect the varied and complex activities that the airlines are
involved in. The board would then be in a position to provide
leadership by formulating appropriate policies for the airlines. This
would ensure that management undertake programmes of stringent cost
containment and revenue enhancement as well as meeting the domestic
air transport needs of relevant countries as well as the regional
market.

6.4.5 Systems

There is need to review airline management information systems
(MIS). Management ought to clearly define their information
requirements to ensure that summarised, relevant and accurate
information required to ensure cost effective operations is brought
to management's attention timely and cost effectively (Vide
5.2.1.3(1)). A common database need to be established to ensure that
compatible decisions are made.

If SADC airlines are operated on commercial lines, then audited
financial accounts are likely to be published in time. Management
accounts would likely reflect relevant cost information to enable
operations to be conducted at lowest possible cost. To limit foreign
currency liabilities due to interlining, SADC airlines ought to desist
from writing tickets for foreign carriers unless more than fifty per-
cent of the revenue is carried on the relevant SADC airline as is
Non-residents ought to be required to pay their air fares in hard
currency to reduce interline liabilities.
6.4.6 Style

The top management and specifically the Chief Executive Officers of SADC airlines ought to adopt a more participative style of management. This should result in open and genuine communication at all levels. Employees are likely to be more motivated to perform better if they feel that they were consulted on decisions affecting the well-being of their organisation. Government Ministries ought to limit their intervention in the running of airlines to directions on policy only.

6.4.7 Superordinate Goals (Shared Values)

There is need for SADC airlines, adopting a cost focus strategy, to articulate a cost conscious attitude in their organisations. A culture of cost containment need to be established and top management have to take the lead. Some top management perks may have to be reduced so as to give a clear message to the whole organisation about the need to be economical.

To articulate a corporate culture requires a strong and committed leader with a vision. Such a leader would articulate the often unwritten values consistently for a long time until the organisation’s thinking is aligned to cost consciousness values.
6.5 Leadership

The success of the cost focus strategy would depend on the leadership provided for SADC airlines. The critical nature of management to ensure the turnaround of organisational decline was highlighted in Section 2.6. The critical nature of leadership was also confirmed in the study of successful turnarounds of BA (Vide 3.2) and SAS (Vide 3.3) as well as in the study of a consistently profitable airline namely SIA (Vide 3.4).

The study of BA, SAS and SIA showed that management must clearly state the mission of the airline. Management of these airlines clearly formulated appropriate goals and objectives for their airlines. These goals were clear, challenging and achievable. Management then came up with appropriate strategies to ensure that the goals or objectives of the airlines were achieved.

SADC airlines can also formulate and implement successful turnarounds and maintain profitability if the present top management is replaced by strong, competent leadership with a clear vision of how to turnaround the present poor economic and financial performance of their airlines. They would need to come up with a clear mission and objectives which should be communicated effectively to the organisation's personnel, shareholders and other stakeholders.

Since the cost focus strategy appears to be the most viable turnaround strategy, the top management need to cultivate a culture
of cost consciousness within their airlines (whether or not the airlines operate individually or if combined/merged). Tight budgetary systems to ensure that costs are within specified limits need to be put into place without sacrificing safety or acceptable levels of standards of service. A culture of cost consciousness can be enhanced by encouraging and rewarding personnel who excel in coming up with ideas to cut costs.

Top management would need to ensure that production efficiency is achieved through efficient and effective airline scheduling and fleet planning to ensure the selection of the optimum number, type and size of aircraft for airline operations as well as improving labour productivity. Service efficiency would also be necessary to minimise costs and would be achieved if top management come up with ways to increase load factors and revenue yields through the effective employment of the technique of yield management (Vide 2.3.3). Cost efficiencies would be achieved through management ensuring that there is careful control on aspects like fuel costs (for example through the use of more modern, fuel efficient aircraft), negotiating to reduce user charges wherever possible such as airport and en route navigation charges, the optimum choice of aircraft size and speed for a given route and optimum aircraft and crew utilization.

Management would be critical in negotiating or facilitating SADC airline integration or cooperation among airlines, for example, in rationalising aircraft scheduling, shared facilities (ground equipment and training among others), standardised aircraft purchases, joint marketing of services and so on.
Competent and committed leadership would also be critical in ensuring that all the elements of the McKinsey 7-S framework are all aligned to the cost focus strategy.

6.6 Conclusions

SADC airlines, individually or collectively, do not possess the information, human, material and financial resources to meet the intense and growing competition from the "mega-carriers" from Europe, USA and elsewhere in the intercontinental markets. The increasing moves towards deregulation and globalisation as well as the growing environmental (noise) lobby constitute formidable threats to SADC airlines on intercontinental markets. It appears that SADC airlines can only survive and prosper if they confine their operations to regional (within Africa) and domestic markets.

SADC airlines also need to drastically reduce their costs to the lowest possible while maintaining an acceptable level of service. Cooperation among like-minded airlines within or outside SADC should result in significant cost savings.

The various elements of the internal environment of SADC airlines also need to be aligned to the strategy of cost focus to ensure that the strategy is effectively implemented.
7. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

7.1 Summary

SADC airlines are beset by several problems. These include heavy losses, massive debts, inadequate aircraft utilisation, over supply of capacity, overmanning, low productivity, inadequately skilled manpower, lack of cooperation among SADC states and ageing aircraft. The average economic growth rates are generally low while population growth rate is higher than economic growth rate. Foreign currency is generally in short supply to finance imports of raw materials and capital equipment such as aircraft and associated ground support equipment.

Some dynamic and profound political and social changes are taking place within SADC countries. There are widespread moves towards democratic governments and institutions within the region. The wisdom of continually heavily subsidizing loss making institutions such as airlines are increasingly being questioned not only by donor agencies but also by the SADC population. It is against this background that strategies to turnaround SADC airlines were being sought.

A literature research was carried out in Chapter 2 to find out the ideal strategies to turnaround the poor economic and financial performance of SADC airlines. Three generic strategies described by Porter (1985 : 65 - 70) were identified which could be used by any firm in any industry to gain a competitive edge over rival
organisations. These are cost leadership, differentiation and focus strategies.

The cost leadership strategy seeks to achieve cost, production and market/service efficiency. Cost efficiency is achieved by having the lowest possible cost for a given level of output (seat or tonne kilometres) at a given level of customer service and the market income/output (passenger or tonne kilometres). Costs can be minimised by, among other things, the use of modern fuel efficient aircraft, the optimum selection of aircraft size, speed and range (low costs would be achieved by using larger aircraft on longer stage lengths at higher average speed) as well as optimum crew and aircraft utilisation.

Production efficiency can be achieved through efficient and effective airline scheduling. This involves striking a balance between crew utilisation to ensure maximum productivity, equipment maintenance designed to enable an even flow of maintenance work to ensure the efficient utilization of facilities while ensuring that the required aircraft are available for services and the use of facilities which should be adequate to meet the anticipated demand.

Market or service efficiency is achieved by ensuring that adequate load factors and yields are realized to ensure profitable airline operations.

A differentiation strategy requires SADC airlines to offer customers something different from competitors which the rivals would find difficult to match such as the quality of service offered. SADC
airlines could differentiate themselves from their competitors by the provision of superior check-in/check-out procedures; effective communication with customers; a wide choice of good quality in-flight meals, entertainment and duty free goods; adequate and convenient frequency of services; efficient, convenient ticketing and booking services, among other things. The strategy would be targeted on a broad cross-section of the market.

The focus strategy could involve either the cost focus or differentiation focus. In a differentiation focus, an airline would seek to provide superior and unique services tailored for a particular market segment. A cost focus strategy would entail seeking to maintain costs consistently below those of competitors in an airline's target market.

The literature research also revealed the critical nature of management for the success of any strategy. Turnaround strategies in various industries were spearheaded by strong, competent and committed top management who articulated appropriate strategies for their organisations.

From the literature research it appeared that either the broad based cost leadership strategy or the cost focus strategy were the ideal strategies to turnaround SADC airlines.

In the third chapter some airlines which carried out successful turnarounds namely BA and SAS or which consistently maintained profitable operations namely SIA were studied. The study was meant
to derive practical strategies which were or are being successfully employed, based on the ideal strategies for success discussed in Chapter 2. Important lessons were derived from the study of the three airlines.

The necessity for a mission as well as clear, challenging and actionable goals was highlighted. The study of BA and SAS highlighted the need for strong, competent and committed top management to effect successful turnarounds. The top management are responsible for, among other things, the formulation and implementation of the appropriate mission, goals, objectives and strategies to effect successful turnarounds. Management need to have a free hand in running the airlines which point to the need for a policy shift by SADC Governments to commercialise and ultimately privatise their airlines if profitability is to be achieved.

The study of BA, SAS and SIA showed that it is costly to adopt either the broad based differentiation strategy or the differentiation focus strategy. Huge financial resources may be required to, for instance, acquiring a modern fleet of aircraft (following the practice of SIA and BA), extensive marketing of airline services and establishing an effective distribution system. SADC airlines, with their meagre resources, may not be in a position to adopt the differentiation strategy. The cost leadership strategy, either the broad based or focus strategy appeared to be the most viable for SADC airlines.
BA, SAS and SIA formed global alliances which highlighted the need for SADC airlines to do the same as a way of minimising costs. Costs would be reduced through economies of scale achieved by sharing resources, for example, in the field of training personnel, maintenance of aircraft, spares and other equipment.

Having come up with ideal strategies to effect airline turnaround in the second chapter and having, in Chapter 3, derived lessons from airlines which adopted some of the strategies identified in Chapter 2, pragmatic strategies which may be used to turnaround SADC airlines were discussed in Chapter 4.

The most pragmatic turnaround strategies for SADC airlines appeared to be either the cost leadership or cost focus strategies. There is a lot of scope for SADC airlines to increase cost efficiency, market/service efficiency and production efficiency.

Cost efficiency can be realised through reducing fuel costs by replacing ageing fuel inefficient aircraft within the SADC fleets such as the Boeing 707s, DC-8s and DC-10s with more modern fuel efficient aircraft such as the Boeing 767s, Boeing 737-400s and 500s and MD-80s. Cost efficiency may also be achieved through rationalising aircraft types in a fleet and through economies of scale which could arise if SADC airlines were integrated or if they closely cooperated. Market efficiency would be realised by ensuring that adequate load factors and high aircraft utilisation are achieved as well as disposing of excess aircraft. Presently there is chronic oversupply of capacity in the SADC region (Vide 5.4.1.a). Production efficiency would be
achieved through efficient and effective airline scheduling and by increasing labour productivity.

It appears that SADC airlines may be profitably operated if they focused their operations on regional and domestic routes. SADC airlines appear to be ill equipped to confront the fierce competition from the mega carriers from Europe, America and elsewhere on intercontinental routes.

The McKinsey 7-S model was used in the fifth chapter to carry out the internal analysis of SADC airlines, in particular, Air Zimbabwe to reveal strengths and weaknesses.

The following were the main strengths typical of SADC airlines:

a. The bureaucratic structures typical of SADC airlines ensure that there are clear lines of authority and responsibilities, clearly defined reporting structures, unity of command and direction which engenders a sense of order, equity and discipline (Vide 5.2.2.a).

b. SADC airlines are members of IATA which allows them to participate in the co-ordination of technical standards and services with other airlines. They also benefit from training and technical assistance programmes (Vide 5.2.2.a). The airlines enjoy Government support which negotiate bilateral agreements and shields the airlines
from cut throat competition from international mega carriers.

c. SADC airlines have adequately trained and skilled personnel in the technical and operational areas with pilots, engineers and technicians trained and licensed to international standards (Vide 5.2.2.b).

d. Air Zimbabwe and most SADC airlines have considerable computer capacity. This can be employed to produce information necessary for management to perform their tasks and make effective decisions. There are also opportunities for automatic ticketing systems typical of mega carriers and other airlines (Vide 5.2.2.d).

The analysis of the internal environment of SADC airlines revealed several weaknesses. These include the following:-

a. Almost all SADC airlines are government owned. The Governments appoint the Chief Executive Officer, often on political grounds, at the expense of the most appropriate person for the job. The organisational structure is tall and bureaucratic hence lengthening the lines of communication and frustrating the timely flow of information which is critical in the dynamic operating environments of airlines (Vide 5.2.1.a).
b. The Government protection and patronage enjoyed by airlines results in there being little incentive to increase efficiency. Subsidies would be received if the airlines face financial problems.

c. SADC airlines are overstaffed largely in the administrative areas. Staff productivity is low (Vide 5.2.1.c).

d. The existing computer capacity is often not put to optimum use as there is usually no common data base with each airline department producing their own data without much regard to what the other departments may be doing. MIS reports, such as annual reports, are generally never timely. Often there are no cost data upon which management could base their decisions. There is a possibility that SADC airlines incur substantial foreign exchange losses through interlining as a result of lack of skills and resources to ascertain whether the debits charged against the SADC airlines are correctly computed (Vide 5.2.1 e (1)).

e. No particular style of management appropriate to the SADC environment has been articulated. No particular CEO has proved to have the charisma, style, competence, commitment or strong enough to lead any one SADC airline to profitability from the present unsatisfactory financial position (Vide 5.2.1.f).
f. There is lack of corporate culture within SADC airlines (Vide 5.2.1.g).

From the external appraisal of SADC airlines, it was evident that they face formidable threats although there are also a number of opportunities which may be exploited by the airlines. The threats include the following:-

a. In the economic environment there is oversupply of capacity. There is increased competition from new entrants into SADC markets as well as existing airlines which poses a serious threat to their viability. The better attractiveness of South African airports especially Johannesburg International Airport as major hubs have increasingly resulted in lower load factors and decreasing yields from SADC airlines (Vide 5.4.1.a).

b. The majority of aircraft in the SADC airlines fleet are ageing. This results in higher fuel consumption and maintenance costs. Replacing these aircraft with modern ones will require huge capital outlays. To be able to compete effectively, SADC airlines need to invest in the provision of sophisticated CRS as well as automated ticketing systems (Vide 5.4.1.b).

c. The general social and political movement within SADC states towards more democratic governments and institutions has increasingly resulted in the general public questioning
the need for the existence of airlines which are perceived as just being a drain on the fiscus without discernible benefits to the population at large. The existence of the airlines are, therefore, threatened unless they can justify their existence by at least being profitable without requiring any state assistance (Vide 5.4.1.c).

d. The existence of some SADC airlines with operations into European and North American markets is also threatened by the move towards the need to comply with ICAO Annex 16 Chapter 3 noise stipulations. This is because the majority of SADC aircraft are ageing (Vide 5.4.1.d).

e. There is increasing pressure from Western donor countries for SADC states to adopt open skies policies. This threatens the continued existence of the present protectionist regulatory environment (Vide 5.4.1.e).

There are also a number of opportunities which may be exploited by SADC airlines employing the cost focus strategy. These include the following:-

a. A policy shift by SADC Governments to relinquish control of airlines and perhaps allow them to be privatised presents several opportunities. They would be able to employ the most suitable persons to be at the helm of the airlines. The top leadership would be able to employ appropriate strategies to turnaround SADC airlines. For example, they
could form strategic alliances with other airlines, resulting in economies of scale, among other cost benefits. The larger airline resulting from mergers, acquisitions or other form of alliances may be in a better position to afford to acquire modern aircraft, automated ticketing, CRS and other equipment cost effectively (Vide 5.4.2.a).

b. A larger integrated SADC airline may be in a better position to confront the competitors from Europe and elsewhere. By exploiting economies of scale and taking advantage of the low labour costs with SADC, such an airline has greater chances of being viable compared with the present situation (Vide 5.4.2.a).

c. SADC airlines can take advantage of their present computer capacity or acquire more computers to ensure a more efficient and effective MIS. This should enable management to make effective decisions on minimising costs (Vide 5.4.2.b).

d. The prevailing social and political situation within SADC characterised by economic and political liberalism is conducive to the enactment of legislation for policy changes which include commercialisation or privatisation of airlines as well as facilitating integration or closer regional cooperation. This should facilitate cost effective and profitable airline operations (Vide 5.4.2.c).
In the sixth chapter an analysis and selection of the appropriate and suitable strategy for SADC airlines was made. It was found that a cost focus strategy would be best for the airlines. In this case, SADC airlines would focus their operations on regional and domestic markets. The airlines need to significantly reduce their costs while maintaining an acceptable level of service.

To ensure that the cost focus strategy is effectively implemented the internal environment of SADC airlines need to be aligned to this strategy.

The structure of SADC airlines need to have fewer layers of management to facilitate communication. Some non productive and unnecessary posts would need to be abolished. The cost focus strategy need to be communicated to all airline personnel to ensure cost effective operations. Appropriately skilled personnel need to be sourced and adequately remunerated so as to benefit from increased productivity. Cooperation by airlines in training personnel would reduce costs. Airline boards need to be staffed by personnel of proven ability and competence who would be able to ensure that airline management undertake effective cost containment and revenue enhancement programmes.

Airline MIS should facilitate management decision making by providing timely, relevant, adequate information cost effectively. A more participative style of management would be more appropriate to motivate personnel to effectively provide services at minimal costs. Management need to articulate cost consciousness values and attitude
among all personnel for success of the cost focus strategy. This requires strong, committed, competent leadership with a clear vision of what it takes to run an airline cost effectively and profitably.

7.2 Conclusions

The performance of SADC airlines is generally very poor. Despite the poor performance of SADC airlines, there is need for the airlines to meet the strategic, social, economic and communication needs of SADC countries. Strategies to turnaround the unsatisfactory performance of SADC airlines were being sought.

The possible turnaround strategies are cost leadership, differentiation and focus. The internal weaknesses and strengths of SADC airlines were analysed using the McKinsey 7-S framework. The internal organisational elements of structure, strategy, systems, management style, staffing, skills and shared values ought to be aligned to the chosen strategy for the successful implementation of the strategy.

A study was carried out of two airlines which had successful turnarounds in the early 1980s namely BA and SAS. A study of BA revealed the successful employment of the differentiation turnaround strategies. SAS, on the other hand, successfully employed the differentiation focus strategies. SIA, one of the most consistently profitable airline in the world was also examined. The Airline successfully consistently used the differentiation strategy.
An analysis of the pragmatic strategies of SADC airlines as well as the internal and external appraisal resulted in evidence pointing to the strategy of cost focus as the most likely turnaround strategy to lead to successful operations. It appears that SADC airlines, in the face of overwhelming competition from well equipped, technologically advanced and relatively better managed 'mega-carriers' from Europe and elsewhere, have to focus their efforts to regional and domestic operations. They ought to operate feeder services to the powerful competitors from developed nations.

There is need to achieve cost leadership through production efficiency, market/service efficiency and cost efficiency. Production efficiency is achieved through economical, efficient and effective airline scheduling, fleet planning and increased labour productivity. Labour productivity can be improved through the reduction of overmanning: recruiting, training and retaining competent personnel. Service efficiency can be achieved through increasing load factors and improved revenue yields. This is achieved through the employment of the technique of yield management. Also excess aircraft can be sold and the older fuel uneconomic aircraft can be retired. Cost efficiency is realized through minimising fuel costs by using fuel economic aircraft, optimising aircraft and crew utilization, among other things.

Close SADC airline cooperation or integration would facilitate the effective employment of the cost focus turnaround strategy. Such cooperation or integration would benefit from economies of scale.
This cooperation or integration need not involve all SADC airlines, but may be limited to some few like-minded airlines.

For the cost focus turnaround strategy to be effectively implemented, there is need for it to be complemented by internal organisational restructuring to ensure that all the elements of the McKinsey 7-S framework namely structure, strategy, staff, skills, systems, style and superordinate goals are all aligned to the cost focus strategy and not conflicting.

New, strong, competent and committed top management with a vision would be required to spearhead the SADC airlines' turnaround. They would have to formulate the airline's mission, goals or objectives, be able to motivate personnel and be prepared to take the bold steps necessary to achieve profitable airline performance.

7.3 Recommendations

The following are recommendations to turnaround the unsatisfactory performance of SADC airlines:

a. SADC airlines ought to adopt the cost focus strategy. In this case, the airlines would seek to gain a sustainable cost advantage over competitors on regional and domestic routes (Vide 4.3.6).
b. There is need for increased regional cooperation among SADC airlines for cost effective operations (Vide 4.2.4, 5.6, 6.2 and 6.3).

c. SADC airlines ought to get into strategic alliances with advanced airlines in Europe, America, and Asia or elsewhere so as to benefit from their sophisticated marketing and management techniques (Vide 3.5 and 6.2).

d. SADC Governments need to effect some policy changes which include commercialising and ultimately privatising SADC airlines (Vide 2.8.4, 3.5 and 4.2.2).

e. SADC airlines need to identify and recruit strong, competent and committed top management to spearhead and articulate a cost leadership strategy focusing on regional and domestic operations (Vide 2.6.2 and 6.5).

f. SADC airlines need to come up with clear mission statements and corporate goals, which should be in keeping with a culture of cost consciousness and the need to be profitable (Vide 3.5).

g. Top management need to ensure that production, market/service and cost efficiency are realised (Vide 4.2.2, 4.2.3 and 4.2.4). This would result in the effective employment of the cost focus strategy.
h. It is necessary that all the elements of the McKinsey 7-3 model be aligned, that is, the organisation structure, strategy, staff, skills, systems, style of management and shared values should be in harmony with the cost focus strategy (Vide 6.4). Specifically, the internal environment of SADC airlines is recommended to be characterised by:

(1) A flatter, leaner organisational structure.

(2) A consistent and persistent cost reduction strategy.

(3) Skilled, competent, experienced, motivated and productive personnel.

(4) Capable, competent and committed airline boards. A strong, dynamic, competent, motivated and committed CEO.

(5) Appropriate and effective internal systems such as MIS, accounting, maintenance and quality control.

(6) A participative style of management.

(7) A shared and accepted cost conscious culture.
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Freedoms of the Air (Doganis 1992:347)

First Freedom - The right of a carrier from country A to fly over country B without landing.

Second Freedom - The right of a carrier from country A to land in country B for technical reasons such as refuelling, but without the right to pick up or put down passengers/goods/mail (revenue traffic).

Third Freedom - The right of a carrier from country A to carry revenue traffic from country A to country B.

Fourth Freedom - The right of a carrier from country A to carry revenue traffic from country B to country A (An airline is almost always granted both third and fourth freedoms since they are complementary - an aircraft usually returns from where it came).

Fifth Freedom - The right of a carrier from country A to carry revenue traffic between country B and country C - or any other countries - in both directions (This freedom is rarely granted to carriers in SADC as well as most countries of the world because it exposes the local airline(s) to the competition of some remotely based and possibly larger and more efficient airline(s)).

Sixth Freedom - The use by a carrier from country A of two sets of third and fourth freedom rights to carry revenue traffic between other countries but using its base at A as a transit point. For example, Air Zimbabwe could carry sixth freedom traffic between Maseru and Luanda via its base at Harare even though it has not been granted fifth freedom rights between Maseru and Luanda. Sixth freedom rights are not formally recognised in air services agreements.

Seventh Freedom - The right of a carrier from country A to carry revenue traffic between country B and country C without landing in the home country (A).

Eighth Freedom - (Cabotage Rights) The right of a carrier from country A to carry revenue traffic between two points in country B. Cabotage rights are seldom granted.