



connecting the world of travel

# The Big Five

## Disruptive Strategies for African Aviation





# Contents

Introduction	4
The ‘Big Five’ – OAG Proposes Five Disruptive Strategies	6
1. Could South African Airways do ‘an Air New Zealand’?	6
2. Air Africa? Branding Future for Ethiopian Airlines?	7
3. Connecting Africa’s Biggest Cities	9
4. Open Skies for Nigeria?	10
5. Time for Serious Foreign Equity in Africa’s Airlines?	12
So Can African Aviation Live Up to its Potential?	13
Appendix I	14



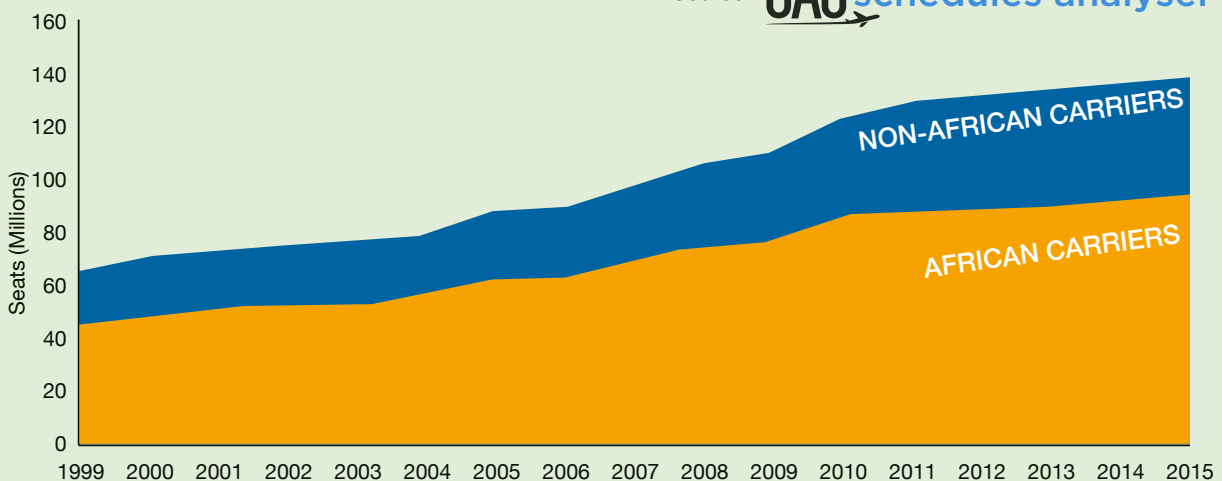
# The Big Five

## Disruptive Strategies for African Aviation

African aviation punches below its weight. Although 15% of the world's population resides on the African Continent, just 3% of all departing scheduled airline seats leave from there. Furthermore, despite higher economic growth in sub-Saharan Africa than among OECD member countries, 4.2% vs 1.7% in 2014, airline seats to and from Africa have only grown by an average of 2% p.a. since 2011.

### GROWTH OF CAPACITY TO/FROM AFRICA

Source: **OAG** schedules analyser





For all the talk amongst African leaders of encouraging competition, there is still resistance to opening aviation markets. African states have protected their home markets from other African airlines but the threat is now perceived as being greater from non-African airlines. In September 2015 Emirates will operate scheduled services to 20 destinations in 17 African countries from its Dubai hub.

**EMIRATES ROUTES TO AFRICA**



**TURKISH AIRLINES ROUTES TO AFRICA**

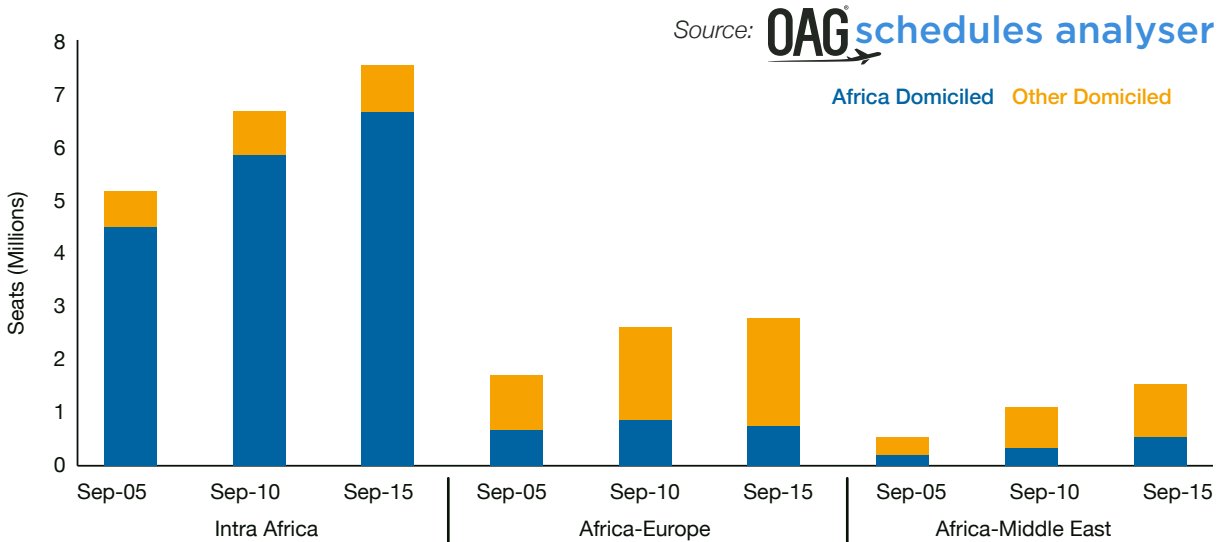


Similarly, Turkish Airlines now operates to 29 destinations in 19 African countries from its Istanbul hub, though total capacity is just over half of that of Emirates due to fleet differences. Emirates averages 367 seats per aircraft, whilst Turkish, with a more varied fleet, has an average of 178. For some of Africa's thinner routes, the Turkish model appears a better fit for these markets, although Emirates network east of Dubai, and the latent power of Flydubai, mean it is likely to be more of a threat in the long term than Turkish Airlines.

It is easy to understand the threat, perceived or otherwise. After all, Emirates is 5 times larger than Ethiopian Airlines or South African Airways, based on seat capacity. However, the reality is that the share of airline seats to, from and within Africa that are operated by non-African carriers has remained fairly static at between 29% and 32% in each of the past 15 years.

This September, nearly two thirds of all scheduled airline seats to, from or within Africa will operate within the continent, mostly (89%) by African airlines.

**CAPACITY BY DOMICILE OF CARRIER**



The third largest market is Africa - Middle East, making up 13% of all airline seats. Rising from 11% (2010) and 8% (2005). Surprisingly, the share operated by non-African carriers has actually fallen from 66% (2010) to 62% today.

However, the perceived threat of more successful non-African airlines remains part of the rhetoric for national governments to continue protecting their home turf. Further to the point, if they are not protecting national carriers from European and Middle East competitors, it is often from other African airlines. Fastjet has been trying to enter the South African domestic market for two years whilst it took FlySafair over a year to gain a licence to operate in South Africa.

The threat from elsewhere masks the underperformance of African aviation. For a continent of 54 countries, a population of 1.1 billion and air traffic growth projections of 4.7% p.a. by IATA<sup>1</sup>, Africa has only one airport, Johannesburg, among the world's Top 100 airports in September 2015, as measured by departing seats. It ranks 85th due in part to the size of the South African domestic market, which is the largest in Africa. There are only two African airlines ranked among the world's Top 100 airlines by the same measure, and they are South African Airways and Ethiopian Airlines, ranked 87th and 89th, respectively. Total seats operated by all African airlines together is fewer than the number flying into London airports in September 2015.

The reasons for underperformance among African carriers are well documented – the slow pace of liberalisation, protection of national companies, high taxes and fees, and even safety issues. The result has been poor development of intra-regional air services, high air fares and citizens and businesses which are not afforded the opportunities that air travel could bring.

So how can African aviation fulfil its potential? In this report, OAG suggests African aviation would benefit from a sense of positive disruption and as a result of that, we propose our own 'Big Five' disruptive strategies which could be undertaken by individual airlines, airports and countries, giving Africa the potential to reshape its aviation industry.

## The 'Big Five' – OAG Proposes Five Disruptive Strategies

### 1. Could South African Airways do 'an Air New Zealand'?

The South African aviation market is the largest in Africa and South African Airways (SAA) is Africa's largest carrier, with 1% more capacity than Egyptair and Ethiopian Airlines. SAA grew capacity by 3% in 2014 but the year before, capacity declined by 1%. In September 2015 their capacity is 2.4% lower than September 2014, while the South African market as a whole has grown by 9.9%.

The airline has been slowly reshaping its route network to focus more on regional flying within Southern Africa as well as the rest of Africa. Its latest turnaround strategy is focused on optimising the route network with loss-making long-haul routes to Beijing and Mumbai getting cut, whilst new daily services to Abu Dhabi have been introduced, allowing them to serve India through their strategic partnership with Etihad.

Mango, SAA's LCC subsidiary, has been growing strongly with seats up 18% this September versus last. Collectively they operate over 50% of domestic capacity in South Africa and have done so for several years.

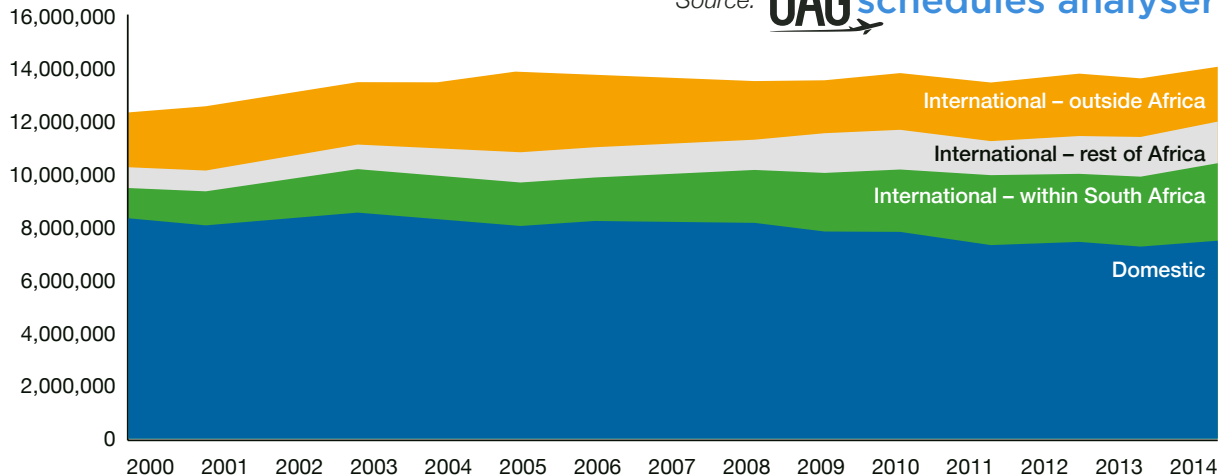
Should SAA be looking at a more radical strategic re-think? In markets where LCC presence is increasing, the continuation of a full-service profitable product offering is difficult. Perhaps for SAA, Mango represents the alternative long-term option for domestic and regional markets?

---

<sup>1</sup> <http://www.iata.org/pressroom/pr/pages/2014-10-16-01.aspx>

### SOUTH AFRICAN AIRWAYS CAPACITY BY MARKET REGION

Source: **OAG** schedules analyser



A radical and disrupting move might be to take a lesson from fellow Star Alliance member, Air New Zealand. Like SAA, NZ is located at the geographical edge of a region and had a chequered financial performance, eventually being renationalised as part of a government rescue plan in 2001. In contrast to SAA, however, NZ has been celebrating three consecutive years of earnings growth and a rising share price following the launch of its 'Seats to Suit' product a few years ago; an innovative mechanism designed to enable it to compete with both legacy carriers and low cost carriers. Air NZ could have chosen to face the competitive landscape by taking smaller incremental steps but its willingness to take a radical and innovative one at the right time has paid off.

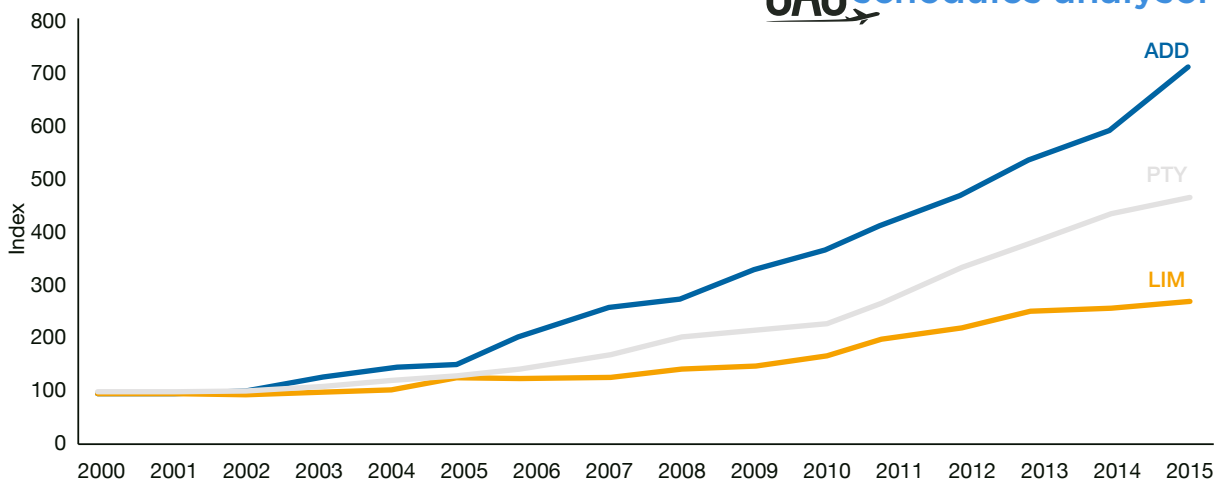
So what if South African Airways were to develop its own equivalent product, allowing the airline to cut costs while maintaining a market-appropriate product? Could Mango be part of the move? It seems it is time for SAA to let go of the past as its history is preventing its future.

### 2. Air Africa? Branding Future for Ethiopian Airlines?

Ethiopian is probably the most successful airline in Africa right now. In contrast to SAA, the airline has been growing its share of African aviation and capacity stands at 7.3% of African capacity compared to 4.4% just 4 years earlier. Its capacity has grown in strong double-digits for several years and the airline is profitable.

### RELATIVE CAPACITY GROWTH SINCE 2000 AT ADD, LIM & PTY

Source: **OAG** schedules analyser



It has recognised its market opportunity as a gateway for air services between China and Africa, creating an effective hub at Addis Ababa Airport, which attracts 55% of the non-stop capacity between Africa and China. A recent report by OAG on the Africa – China market identified that China is Africa’s largest trading partner and services between Africa and North East Asia has more than doubled since 2010. Ethiopian Airlines has been instrumental in that growth, with services from Africa to Shanghai, Beijing, Guangzhou and Hong Kong.

Airports such as Panama City and Lima in Latin America similarly recognised their potential based on an advantageous geographic position for certain traffic flows. A comparison of the capacity growth at Lima (LIM), Panama City (PTY) and Addis Ababa (ADD) since 2000 shows that the trajectories are not dissimilar.

In fact, given the lower level of air services at Addis Ababa in 2000, the relative performance at ADD has been stronger.

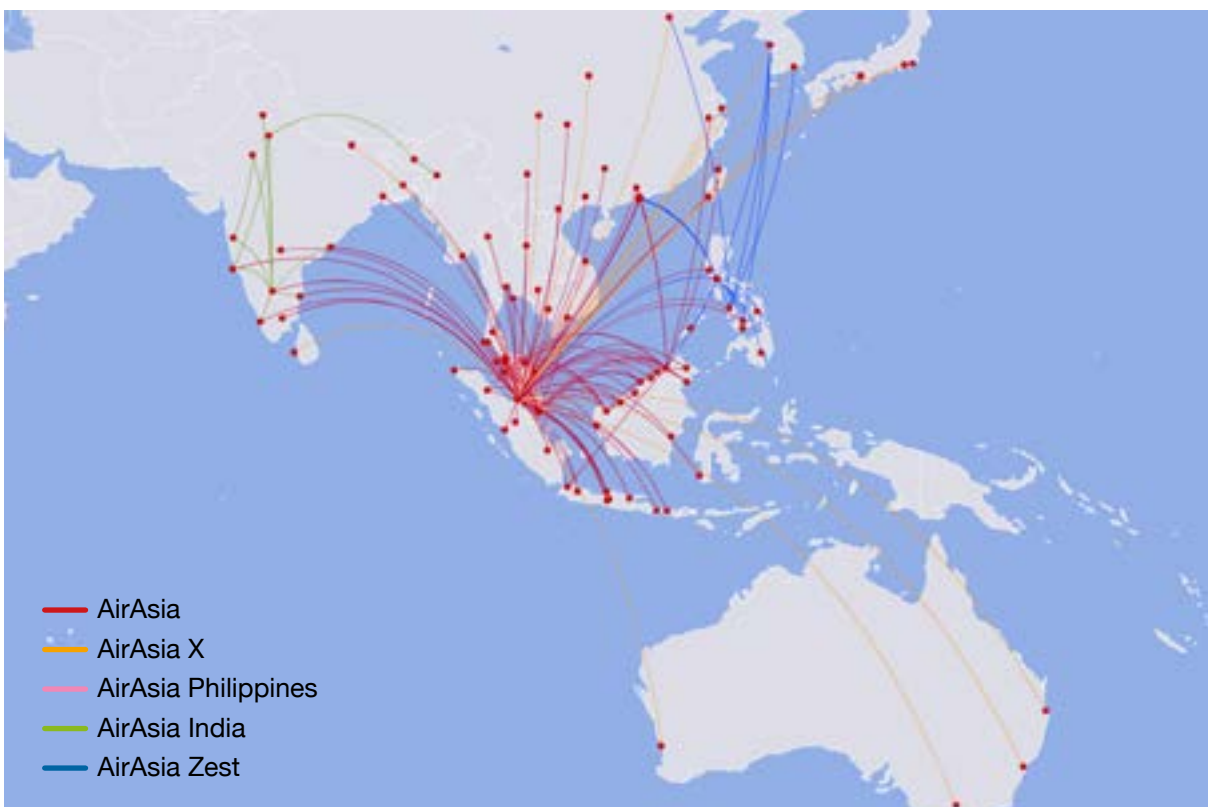
While Addis Ababa is clearly well placed geographically to connect travellers from China and other parts of Asia to Africa, could Ethiopian be setting its sights higher to become a pan-African brand? This is not a novel concept – in the United States, the major carriers all have a West, East, Central and Southern hub. Could Ethiopian replicate that sort of approach in Africa?

Local ownership rules have always been a blocking tactic for ambitious expansive airlines. However, carriers such as AirAsia have disrupted this tradition by creating joint ventures based in different countries. This is enabling the airline to create a virtual network of hubs.

There is some evidence emerging that Ethiopian could have its sights on a similar regional expansion using joint ventures to create a virtual network. They already have a 40% stake in Togo-based ASKY which uses some aircraft owned by Ethiopian. Ethiopian also has a 49% stake in Malawian Airlines which was launched in January 2014 as a joint venture with the Malawian government with Ethiopian owning the aircraft there too. Other options that

## AIRASIA GROUP ROUTES

Source: **OAG** schedules analyser **OAG** mapper





have been discussed include a share in Rwandair and joint ventures with two African governments.

It may be that some of these joint ventures are simply pragmatic solutions to expanding into new markets and alternative vehicles for protecting national interests, but were all these joint ventures to prove successful, it would give Ethiopian a strong presence across Eastern, Central and Southern Africa. To be truly disruptive, could Ethiopian embrace branding and create a single brand identity for its network of JV's? Could the Ethiopian of today be the 'AirAfrica' of tomorrow?

## ROUTE NETWORKS FOR ETHIOPIAN AIRLINES, ASKY, MALAWIAN AIRLINES AND RWANDAIR (SEPTEMBER 2015)

Source: **OAG** schedules analyser **OAG** mapper



### 3. Connecting Africa's biggest cities

One of the reasons that OAG recognises the potential of Africa is that both the economy and the population is growing strongly even if the current level of economic output is, on average, relatively low. However, many of the air services reflect the economic ties of previous times, with better connections to Western European capital cities than other parts of the Continent. What if airlines within Africa refocused on connecting the major cities on the Continent?

Each of the 10 largest urban conurbations have a population of around 5m or over. If a non-stop air service was available between each one of them, there would be 45 routes connecting these cities. However, only 22 of the 45 possible routes have non-stop air service today<sup>2</sup>. That leaves 23 routes between these cities unserved, the smallest of which, Abidjan, has a population of nearly 5m but only has scheduled services to two of the other Top 10 urban areas.

OAG Traffic Analyser shows that the actual volume of passengers using one-stop services to travel between the top ten cities in Africa without non-stop air service is small, numbering around 35,000 in the twelve months to April 2015. In addition, 14% of these were connecting at an airport outside Africa. However, whereas routes are usually operated where demand is evident, in this instance might the lack of air service be holding back economic development across the Continent?

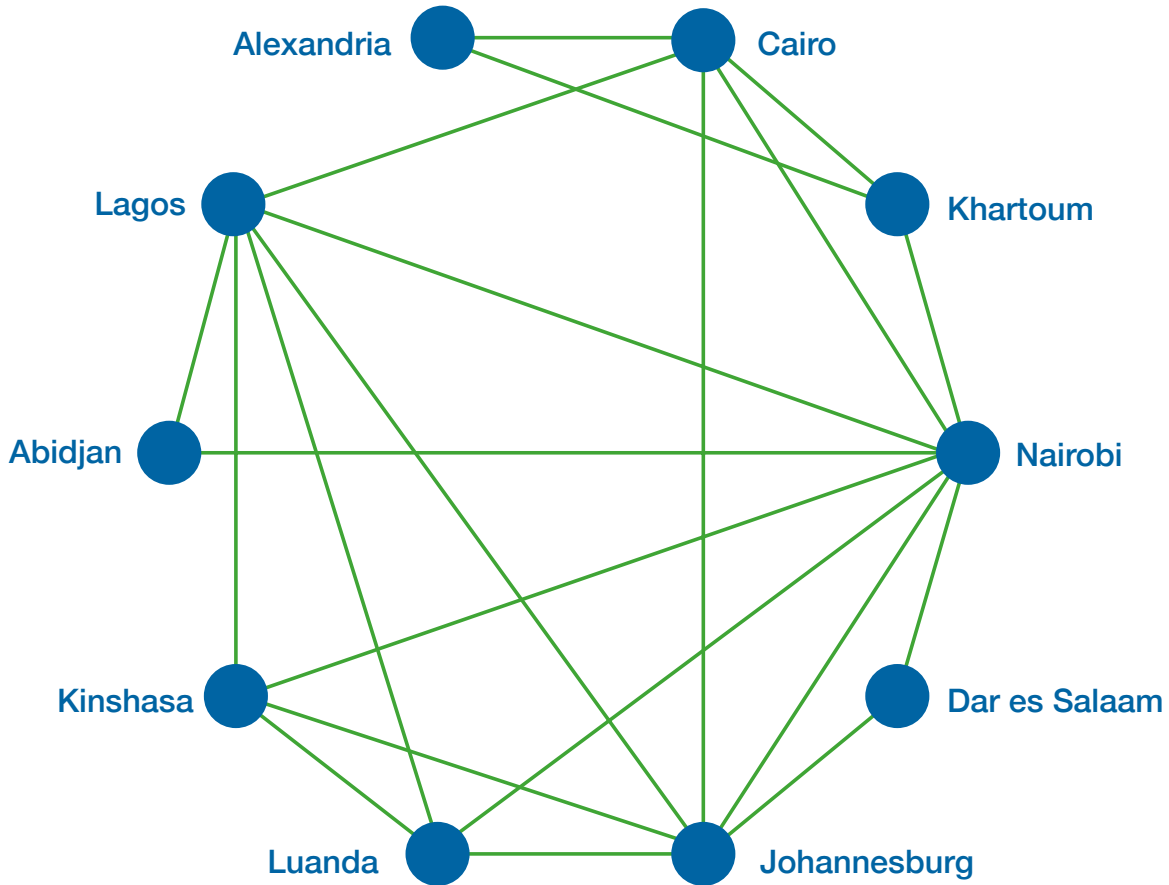
### 4. Open Skies for Nigeria?

<sup>2</sup> See Appendix 1



## 10 LARGEST URBAN CONURBATIONS IN AFRICA AND NON-STOP AIR SERVICES BETWEEN THEM

Of 45 possible connections, there are only 22 non-stop air services in place today.



The need for a hub airport to serve West Africa has been around for some years but has yet to materialise. Southern Africa has an award-winning hub at Johannesburg<sup>3</sup>, especially following the refurbishments undertaken ahead of the 2010 FIFA World Cup. Eastern Africa has a hub airport emerging at Addis Ababa which will be boosted by plans for a new airport able to handle as many passengers as London Heathrow.

Whilst the region has a reputation for poor transport links, there is investment taking place in West African airport infrastructure. Burkina Faso is building a brand new airport 40km north-east of Ouagadougou and Sierra Leone has also announced construction of a new airport. A few years ago a new 'green field' site for an airport was proposed north of Lagos but it has not materialised, and a few months ago it appeared that proposals for a new airport at Lekki, just outside Lagos, could finally become reality<sup>4</sup>. Ghana is moving ahead with public-private partnerships such as the one funding investment at Tamale, and another at Kotaka, Accra's international airport. Indeed, Accra has been mentioned as a potential hub airport for West Africa with possible investment from China<sup>5</sup>.

Consequently, what would be gained if such a hub were created? In September there will be 2.8 million seats arriving at Central and Western

<sup>3</sup> Skytrax World Airport Awards 2015

<sup>4</sup> <http://3investonline.com/hope-of-completion-of-n71bn-lekki-airport-as-new-investors-indicate-interest/>

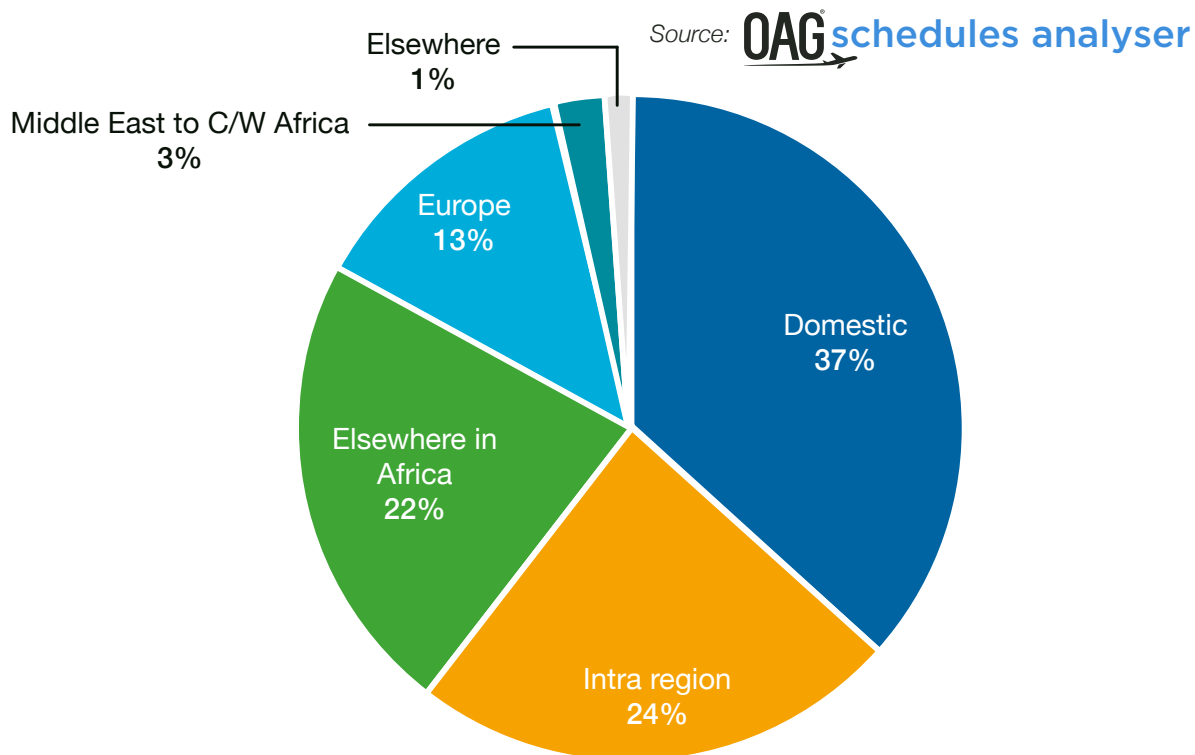
<sup>5</sup> <http://africanbusinessmagazine.com/uncategorised/chinese-to-build-second-accra-airport/>

African airports, up 13% from September 2010. Nearly two in every five seats – just over a million seats – will be on a domestic route with Nigeria and Ghana accounting for the majority of these (573,000 and 104,000, respectively).

The market for international air services within the region makes up 24% of capacity but is only slightly more than to the whole of the rest of Africa.

Nigeria is an obvious choice for a West African hub as it is the most populous country in Africa and home to 170m people. The population is set to continue

### SEATS TO CENTRAL & WESTERN AFRICA – SEPTEMBER 2015



growing and the economy has seen average real GDP grow at 6.3% between 2006 and 2014, according to the African Development Bank. Lagos is the largest urban area on the continent with a population of close to 17 million but the airport itself is congested and without room to grow.

Obviously the need for the right infrastructure is important but it is only part of the task. Airlines need to be willing to use the hub airport. One of the policy decisions made by governments elsewhere which have helped hubs such as Amsterdam Schiphol Airport and Singapore International Airport to develop and thrive has been an open approach to air services. Nigeria has over 70 air service agreements but only 21 of these are used<sup>6</sup> and only 5 reciprocated with Nigerian carriers are able to match services provided by foreign carriers. What if the Nigerian government adopted a more open approach to airlines, allowing any carrier to operate as long as it met safety requirements?

Maybe this would be the incentive needed for investors to back a hub airport and for foreign airlines to take an active stake in a Nigerian airline. Nigeria has not had a nationally-owned carrier since the liquidation of Nigeria Airlines in 2003 and Lagos-based Arik Air is now the largest. The Nigerian government has suggested it is looking to create Nigeria One, a new Nigerian flag carrier and could partner with other airlines such as Ethiopian Airlines<sup>7</sup>.

However, is a flag carrier really what is needed to make a hub airport work? An operating environment which positively encouraged new air services and did

<sup>6</sup> <http://thenationonline.ng/concerns-over-lopsided-bilateral-air-services-agreements/>

<sup>7</sup> <http://www.bloomberg.com/news/articles/2014-09-29/nigeria-plans-airline-to-profit-from-2-billion-aviation-program>

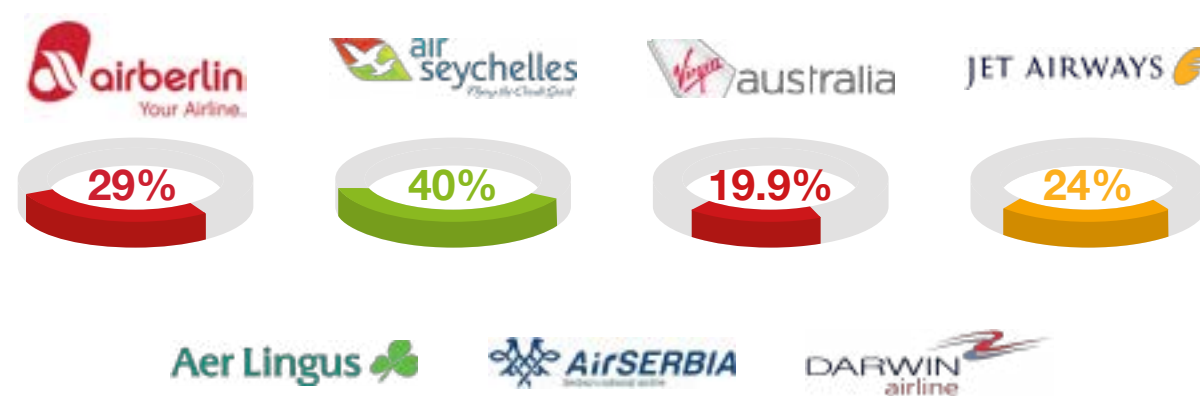


not undermine existing privately-owned airlines, through government support for others, could be just the disruptive strategy needed to get regional aviation – and the regional economy – shifting up a gear.

## 5. Time for Serious Foreign Equity in Africa's Airlines?

For an international industry, one of the strangely defining characteristics of aviation has been the tendency of national governments to protect airlines and traffic rights. The web of bilateral air service agreements and airline ownership rules that maintain this has been disrupted in recent years by airline owners who have taken equity stakes in airlines based in other countries, and created joint ventures which are 'locally-owned'.

There are numerous examples now. Etihad has equity stakes in Alitalia, Jet Airways, airberlin, Niki, Air Serbia and Air Seychelles. It also has a partnership with SAA that extends beyond just code-sharing but stops short of an equity stake.



Source:  
CAPA

In Latin America, Avianca Holdings now owns a series of Avianca-branded subsidiaries across the continent. In Europe IAG is building a network which includes British Airways, Iberia and Vueling.

Could the next disruptive strategy affecting African aviation be from foreign ownership and equity stakes? There are several which seem plausible.

What if IAG were to tempt SAA away from Star Alliance to Oneworld, changing the nature of the SAA long-haul network in the process?

Could Etihad add an African partner to its network of equity associates which increasingly looks like a global alliance? An influx of equity might be good for Kenya Airways just now but partnership with Ethiopian would provide connectivity across Africa from Addis Ababa.

Are there Chinese carriers that are looking for a stake in an African carrier? Hainan Airlines recently acquired Swissport, demonstrating that they are in expansion mode. Hainan Airlines has been public about wanting direct air services to Africa and recently announced an equity stake in British Airways franchise and full-service carrier, Comair, in South Africa as well as the South African LCC Kulula<sup>8</sup>.

<sup>8</sup> <http://centreforaviation.com/analysis/hnahainan-airlines-buys-62-of-south-african-comair-accelerating-china-africa-aviation-links-227225>

## So Can African Aviation Live Up to its Potential?

These are our pick of five potential disruptive strategies which could change the landscape of African aviation. Whether they become a reality only time will tell, however what is clear is that some sort of disruptive behaviour is needed to help Africa emerge from the failures of overly protective regimes. Whilst history is no indicator of the future, learning from others is helpful and perhaps now is the time for African aviation to stop looking inwards for solutions and instead explore globally for a solution to what works and stimulates change.

African consumerism is growing, its global stature is growing, its economies are growing and it is increasingly entrepreneurial in its behaviour. However it is failing to apply this to the aviation industry. Aviation in Africa needs liberalisation and change and that means tackling issues such as taxation on travel to visa constraints, airline ownership, air service agreements, partnerships and investment, otherwise it is unlikely to ever meet its potential.

The global aviation community will soon congregate at the annual World Routes Development Forum in South Africa, discussing new market opportunities and changing business models. In attendance will be a number of senior industry leaders and experts on hand to discuss future strategies for the region providing real insight. Perhaps now is the time for Africa aviation in its widest sense to embrace change and fulfil its true potential.

This article was written using data and reports from OAG Schedules and OAG Traffic Analyser. OAG is the global leader in aviation information and analytical services. Its flight status and airline schedules and capacity databases hold future and historical flight details for over 900 airlines and more than 4,000 airports. OAG has been trusted and respected within the aviation industry for over 80 years.

**OAG**analyser





## Appendix 1

### Routes Matrix Between Top 10 African Urban Agglomerations

#### NUMBER OF FREQUENCIES IN 2014

Source: **OAG** schedules analyser

From \ To	LOS	CAI	JNB	FIH	LAD	KRT	DAR	HBE	NBO	ABJ
LOS		238	747	9	135				362	336
CAI	237		284			1614	199	495	257	
JNB	747	284		313			871		1668	
FIH	13		313		1				362	4
LAD	136		577	153					253	
KRT		1674						23	310	
DAR		199	872						2049	
HBE		493				23				
NBO	517	258	1668	310	253	310	2041			155
ABJ	332								155	

#### Usage and attribution

This information can be reproduced in whole or in part, online or in print, for non-commercial purposes only and must include attribution to OAG and a link to [www.oag.com](http://www.oag.com).

#### Disclaimer

The intended recipient ("The Customer") acknowledges that all the data provided by or available through OAG is owned either by OAG Aviation Worldwide Ltd or by a third party provider ("The Owners") and that the customer shall not acquire any ownership or interest in such data.

OAG data is solely for the benefit and purposes of the intended recipient and may not be disclosed to, used by or copied by anyone other than the intended recipient. OAG Aviation Worldwide Ltd has used reasonable efforts in collecting and preparing data in the report but cannot and does not warrant that the information contained in this report is complete or accurate. OAG Aviation Worldwide Ltd hereby disclaims liability to any person for any loss or damage caused by errors or omissions on the report.

# LIST YOUR AIRPORT'S VACANT ROUTES ON



**AND REACH 100,000+  
UNIQUE MONTHLY VISITORS\*  
FROM THE AIRLINE NETWORK  
PLANNING COMMUNITY**

\*NOV-JAN 2014 AUDITED PERIOD

**FROM JUST €999  
FOR 12 MONTHS**

CURRENTLY HOSTING 315 AIRPORTS. ADVERTISING 3,980 VACANT ROUTES

**AND NOW FEATURING**



THE GAME DRIVEN BY THE  
WORLD'S MOST POWERFUL  
SEARCH ENGINE

YOUR ONE-STOP AIRPORT MARKETING SHOP IS [WWW.ANNA.AERO](http://WWW.ANNA.AERO)

For more information, visit [www.oag.com](http://www.oag.com)  
or email us on [contactus@oag.com](mailto:contactus@oag.com)

**Europe, Middle East & Africa**

1 Capability Green  
Luton  
Bedfordshire LU1 3LU  
United Kingdom

T: +44 (0)1582 695050

---

**Americas**

55 Chapel Street  
Suite 103  
Newton  
MA 02458  
USA

T: +1 617-787-4200

---

**Asia**

6 Shenton Way  
#24-08A, Singapore  
OUE Downtown 2  
068809

T: +65 6395 5888

---

**China**

#3710B Jingguang Building  
Hujialou Chaoyang District  
Beijing China 100020

T: +86 10 5095 5960

---

**Japan**

Toranomon  
40MT Building 9F5-13-1  
Toranomon Minato-Ku  
Tokyo 105-0001

T: +813 6402 7301

