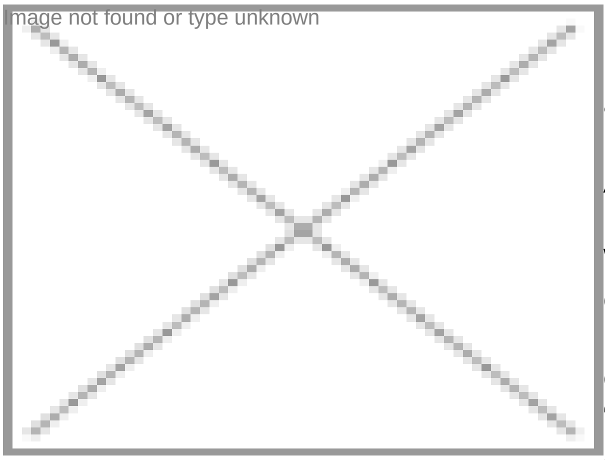
THE ROCKY ROAD TO SURVIVAL

News / Airlines

Having made impressive strides with its turnaround plan, Air Nambia is itching to get back into growth mode before a new breed of low-cost competitors swoops on the country. Martin Rivers reports.

We know the low-cost carriers will come. It's just a matter of when. So said Rene Gsponer, Air Namibia's outgoing managing director, in a stone-faced interview at the International Air Transport Association (IATA) AGM in Miami.
"But we are ready for them – much more than we were two years ago," he added.
A Swiss national, Gsponer landed the job of chief operating officer and accountable manager at Air Namibia in October 2013, following a lengthy stint as one of IATA's senior consultants.
His appointment came in the midst of a painful restructuring period at the Namibian carrier, whose government owner was rapidly losing patience with the parastatal for its heavy financial losses.
After commissioning IATA to develop an urgent turnaround strategy, the airline's board was so impressed by Gsponer that it put him in charge of executing what had now become a do-or- die plan.



It took just one year for the consultant- turned-manager’s vision to bear fruit, with Air Namibia announcing four consecutive months of profit in November 2014 for the first time in its history.
Although the flag-carrier still loses money outside of its peak season, Gsponer’s record speaks for itself.
Whereas the losses for 2012/13 and 2013/14 both exceeded the government’s target of N$600 million ($44 million), the available data for 2014/15 points to an expected halving of that figure.
“It’s the first time we will beat the approved loss,” the airline boss, who steps down in November, confirmed.
“The verified results to the end of [calendar year] 2014 show that we only lost N$199 million ($14.6m).”
Withdrawing Air Namibia’s Accra, Ghana route has helped stem the bleeding, but Gsponer said most of the improvements came on the revenue side. Without dramatically altering its network, the airline has lifted load factors to 77%; raised ticket prices by an average of N$1,000 ($73.0); and steadily increased utilisation of the ten-strong fleet.
“In October 2014 we had a monthly revenue of N$205 million,” he beamed. “A year ago this would have been a dream. Nobody said we could break N$200 million – but in 2014 we actually broke it twice.”
The strong performance was fuelled in large part by modernisation of Air Namibia’s sales strategies and the introduction of new revenue management systems – low-hanging fruit that Gsponer’s predecessor, Theo Namases, announced in 2013. But, while these are welcome steps, they fall well short of the comprehensive strategic overhaul that incoming boss Mandi Samson must now implement.
With a population of just two million and a remote location in southern Africa, Namibia would be a tricky base of operations for any airline. Samson’s challenge will only get tougher when Flyafrica Namibia, a joint venture between local charter company Bay Air and Mauritius-based Flyafrica Ltd, gets back on its feet.
Air Namibia twice blocked the start-up from launching in 2015 by filing complaints with national regulators. When Flyafrica eventually took to the skies on September 2, the flag-carrier redoubled its efforts and convinced the High Court to ground its competitor just two days into operations.
Gsponer pulled no punches when discussing his opposition to Flyafrica. He believes that the company lacks the necessary operating licences in Namibia, and that its ownership structure is effectively a ‘front’ for foreign investors.
“For this carrier to be approved in Namibia, it needs to pass [conditions laid down by] the transport commission,” Gsponer said. “Once it does that, then it needs to pass the civil aviation authority [regulations]. They’re the two steps it needs to take. All we’re saying is it has to follow the same regulations as any other carrier.
“We are not afraid [of competition], but at the moment it is not passing those requirements.”
The outgoing boss admitted that “both hurdles can be overcome”, but insisted the overheads that accompany these rules and regulations will lift Flyafrica’s cost- base, in turn narrowing its pricing advantage. Proving compliance is also “a timely process”, and Air Namibia fully intends to exploit the temporary reprieve afforded by its High Court victory.
“If we get more time [before Flyafrica launches] it’s good, because we can lift our market share,” Gsponer said, referring to the airline’s pre-existing 62% slice of the pie. “Then when somebody new comes, they can get their own market share. It’s all about market share at the moment – Namibia is not a big market.

“When you have only two million people, you have to fight for the load factor we have. And that’s what we’re doing.”
The government has already given its blessing for Air Namibia to grow by 10% a year under the existing turnaround plan, which was initiated in 2012. But, with IATA now estimating that the Namibian market would double in size if open skies were introduced, Gsponer believes those plans need to be accelerated.
“We will first focus on the domestic market,” he affirmed. “Namibia’s a very large country. We have a lot of people driving for too many hours, with a high risk of young people being killed on the road. If we can tap into a market where he tickets are affordable, then people will not go on 10-hour road trips.”
Beefing up the main domestic trunk route from capital city Windhoek to Ondangwa in the north is one priority. The route is served up to three times daily from Windhoek’s city-centre Eros Airport, and Gsponer wants frequencies to double by 2020. The secondary airport also handles four-times weekly flights to Rundu and Katima Mulilo in the north.
Elsewhere, however, efforts to strengthen the hub proposition at Windhoek’s main gateway, Hosea Kutako International Airport, will need more than internal traffic growth. Just three domestic points are served from the hub: Walvis Bay on the western coast is operated daily, while Luderitz and Oranjemund in the south are served four- times weekly.
Mindful of this small home market, Gsponer had begun looking to secondary cities outside of Namibia’s borders.
“Within an hour of northern Namibia there are three million Angolans,” he noted. “They don’t want to go back to [Angola capital] Luanda when they are going south – be it Windhoek or Johannesburg or Cape Town.”
There is also potential for Walvis Bay to function as an airfreight hub, complementing the new port project under way in the coastal city. “Once the port is developed, most of the cargo will go by road or railway, but there will be some urgent freight,” he predicted. “In the years to come, Walvis Bay has the opportunity to become a cargo base, where we fly to anywhere in Africa and even to Europe.”
The first step is commissioning an instrument landing system (ILS) at the airport, which suffers from adverse meteorological conditions.
More immediate expansion of the domestic and regional network will be facilitated by the arrival of two 50-seater aircraft – almost certainly Embraer ERJ-145s. They will join the existing fleet of two Airbus A330 wide-bodies, four A319 narrow-bodies, and four 37-seater ERJ-135s.

Selecting the ERJ-145 – a stretched version of the ERJ-135 – is a no-brainer for Air Namibia because of the maintenance and training synergies that come with deploying an all-Embraer regional fleet.
“Simplicity is our success,” the outgoing chief stressed. “We are a small airline. We cannot have various aircraft types.”
The ERJ-145 is also widely available at “attractive” prices, prompting the board to include the purchase of two units in its budget for the current financial year. Asked how the new aircraft will be deployed, Gsponer said up-gauging existing services and boosting frequencies should take precedence over route launches: “On some routes, [such as] Eros to Ondangwa, we already have a lot of spill. We are leaving passengers behind with the 37-seaters. Also from Walvis Bay to South Africa we expect very soon that we will need a 50-seater.”
Further acquisitions are not on the agenda for now. Air Namibia’s fleet is one of the youngest in Africa, with an average aircraft age of just eight years. Operational growth can be achieved simply by lifting the utilisation rates of the Airbuses, which Gsponer admits are too low.
Nonetheless, even without capital- intensive plans for fleet expansion, incoming boss Samson will still need to secure government approval before changing the roadmap.
“It’s our job as aviation experts to convince the board to look again at the plan,” Gsponer said,

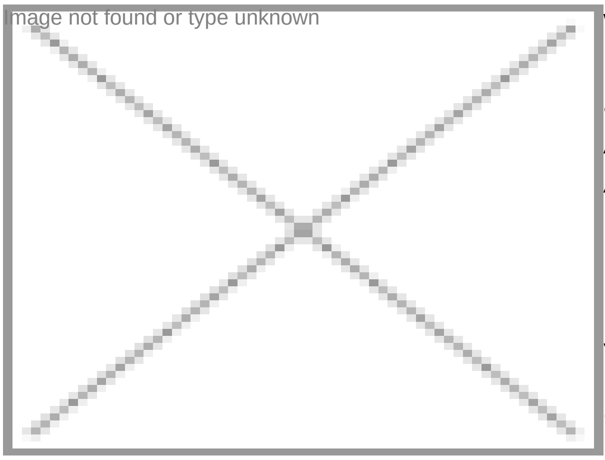
adding that “good signals” have already been aired by ministers in the new government of president Hage Geingob. “They recognise that what was a good plan in 2012 might no longer be a good plan.”

One thing not under review is the all- important Frankfurt route – Air Namibia’s sole intercontinental service and a throwback to its history as a German colony. The 10hr 20min flight is operated six or seven times weekly with the A330s.

On an annual basis the route continues to be loss-making, but Gsponer was quick to talk up its indirect benefits. Today about 70% of the airline’s passengers are European tourists, many of whom fly over Frankfurt with interline tickets from Lufthansa. Without these long-haul visitors, Air Namibia’s estimated contribution of $100 million to national gross domestic product (GDP) plus 10,000 tourism-related jobs would be dramatically revised downwards.

Critics of state subsidies might retort that Germany’s Condor – the only European airline serving Namibia – could replace much of this economic benefit without leaning on taxpayers. It flies from Frankfurt to Windhoek twice weekly with Boeing 767s, and plans to add a seasonal Munich service next year.

But, in reality, few countries would cede control of their most strategic international air link to a foreign-owned budget carrier that could drop frequencies at will.



While Air Namibia is willing to absorb losses on the Frankfurt route for now, neither it nor any other carrier attempts to connect Windhoek with destinations in the Americas, the Middle East, North Africa, Asia or Australasia. The country’s geographical isolation and modest demographics are ill-suited to links with these regions.

Far-flung visitors instead typically connect via Johannesburg in South Africa – one of seven points that make up Air Namibia’s regional network – the others are Cape Town; Luanda; Harare and Victoria Falls in Zimbabwe; Lusaka in Zambia; and Maun in Botswana.)

That could change over the coming years, however, with Air Namibia targeting first Nairobi and later Istanbul as a springboard for global connectivity.

Gsponer said a memorandum of understanding (MoU) with Turkish Airlines (THY) – originally disclosed in April 2014 – has resulted in THY agreeing to extend its Istanbul-Nairobi service with a fifth-freedom connection to Windhoek.

The launch of the route will kick-start a multi-phase codeshare agreement, later seeing Air Namibia take control of the Windhoek-Nairobi leg with A319s. The final phase will see its A330s deployed on nonstop flights to Istanbul – thereby unlocking one-stop access to THY’s global network.

“Turkish Airlines are helping us to establish the route, and then later on we can become the feeder [to Istanbul]. It will take maybe three years,” Gsponer explained, adding that parallel talks are under way with one central European and one Middle Eastern carrier. “If we don’t decide to have a feeding strategy, we will become a [solely] regional player.”

Re-launching West African flights is also on the wish-list, although the loss- making Accra service would only be restored in conjunction with a new link to Lagos, Nigeria.

“Ghana alone is not a viable route.

So we’re working with the Nigerian and Ghanaian governments, and only when we have achieved fifth- freedom [rights] for both Nigeria and Ghana will we do another business study,” he explained. “We would go maybe three times a week via Lagos to Accra, and three times a week via Accra to

Lagos."
Beyond the limitations of its small home market, Air Namibia is handicapped by several legal and operational constraints. Strict labour laws have slowed efforts to reduce its headcount, forcing management to accept a 'natural' decline as employees retire or leave voluntarily. The workforce is down from 745 last year to about 650 today, Gsponer said, and "ideally should be below 600". Night-time flying restrictions are another unwelcome bugbear.
But as the low-cost model gradually sweeps across Africa, Namibia's flag- carrier still has time to strengthen its turnaround and embark on a long-term path to sustainability. Distinguishing its full-service offering from the more spartan products now entering the marketplace will be key.
"We don't want to be a low-cost carrier. We want to be a quality airline with a high-class product," Gsponer concluded. "I'm not sure that we are five- star all the time, but we aim to be five- star. And there is demand for our type of service."

05 NOVEMBER 2015

SOURCE: AFRICANAEROSPACE
ARTICLE LINK:
https://to.50skyshades.com/news/airlines/the-rocky-road-to-survival