

**Competitive Strategies and Entry Strategies of
Low Cost Airline Incumbent 1time Airline**

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Abstract

This dissertation reports on the factors that contributed to the successful entry strategy of 1time Airline, a low cost carrier, into the South African airline industry as well as its competitive strategies within this context. Research interviews were conducted in November 2005 and research material gathered until end January 2006.

Key issues include an evaluation of 1time's business model in relation to other low cost entrants as well as against material sourced through interviews with 1time Airline management, employees and consumers of the airline's product. Porter's Generic Strategies and Five Forces model are used as a framework in evaluating the airline. It is found that Nohria, Joyce and Robertson's "4+2 Formula" is effectively implemented at the airline, but that further implementation of Game Theory in terms of alliances should be investigated for continued success and sustainability.

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Contents

Chapter 1 Context	1
1.1 Introduction	1
1.2 The global airline industry.....	1
1.2.1 Traditional, full service carriers	3
1.2.2 Low cost carriers	3
1.2.3 Regional / niche airlines	3
1.2.4 Charter airlines	3
1.3 The low cost phenomenon internationally.....	3
1.3.1 Southwest Airlines.....	4
1.3.2 Ryanair.....	5
1.3.3 Virgin Blue.....	7
1.3.3.1 Airports and routes	7
1.3.3.2 Fares and marketing.....	8
1.3.3.3 Costs, finance and ownership.....	8
1.4 The African and South African Airline Context.....	9
1.5 Conclusion	10
Chapter 2 Competitive Strategies	12
2.1 Introduction	12
2.2 Industry and Competitive Analysis.....	12
2.2.1 Question 1: What are the Industry's Dominant Economic Features	14
2.2.2 Question 2: What is competition like and how strong is each of the competitive Forces?	15
2.2.2.1 Intensity of rivalry between competing firms.....	16
2.2.2.2 Threat of new entrants.....	17
Barriers to entry	18
Expected retaliation	21
2.2.2.3 Power of suppliers	22
2.2.2.4 Power of buyers.....	23
2.2.2.5 Threat of substitute products	24
2.2.3 Question 3: What is causing the industry's competitive structure and business environment to change?	24
2.2.3.1 Legislation and regulations	25
2.2.3.2 Societal Values and lifestyles	25
2.2.3.3 Commission Cuts & Technology	26
2.2.4 Question 4: Which companies are in the strongest / weakest positions?	26
2.2.4.1 South African Airways.....	26
2.2.4.2 BA Comair / Kulula.com.....	31
2.2.4.3 Nationwide Airlines	33
2.2.4.4 Summary.....	34

2.2.5	Question 5: What strategic moves are rivals likely to make next?	34
2.2.5.1	Players	36
2.2.5.2	Added Values	37
2.2.5.3	Rules	37
2.2.5.4	Tactics	37
2.2.5.5	Scope	37
2.2.5.6	Similarity and parallels between Five Forces Analysis and the Value Net.....	39
2.2.6	Question 6: What are the key factors for competitive success?	39
2.2.6.1	Strategy	40
2.2.6.2	Execution.....	40
2.2.6.3	Culture.....	40
2.2.6.4	Structure.....	41
2.2.6.5	Talent	41
2.2.6.6	Innovation.....	41
2.2.6.7	Leadership.....	42
2.2.6.8	Mergers and Partnerships.....	42
2.2.7	Question 7: Is the industry attractive and what are the prospects for above-average profitability?	42
2.3	Generic strategies	43
2.3.1	Overall Cost Leadership	44
2.3.2	Differentiation	45
2.3.3	Focus	46
2.3.4	Linking the Five Forces Model to generic strategies	46
2.4	Summary.....	48
2.5	Conclusion	48
Chapter 3 Research Methodology		50
3.1	Introduction	50
3.2	Methodology.....	50
3.2.1	Rigour.....	52
3.2.2	Data integrity	52
3.2.3	Reliability.....	52
3.2.4	Validity.....	52
3.2.5	Generalisability	53
3.2.6	Sources of Evidence.....	54
3.2.6.1	Documentation	54
3.2.6.2	Interviews	54
3.2.6.3	Direct observations	55
3.3	Conclusion	55

Chapter 4 Findings and Discussion	56
4.1 Findings.....	56
4.2 Discussion.....	59
4.2.1 Motivation for market entry.....	59
4.3 Industry and competitive analysis.....	61
4.3.1.1 Economies of scale.....	61
4.3.1.2 Customer loyalty and switching costs.....	61
4.3.1.3 Cost disadvantages independent of scale.....	62
4.3.1.4 Government policy.....	62
4.3.1.5 Capital requirements.....	62
4.3.1.6 Access to distribution channels.....	63
4.3.2 Best cost provider strategy.....	63
4.3.2.1 Lower input costs.....	63
(i) Catering.....	63
(ii) Aircraft maintenance.....	64
(iii) Labour costs and productivity.....	64
4.3.2.2 Cheaper product design.....	65
(i) Air service.....	65
(ii) Secondary Airports.....	65
4.3.2.3 Cheaper process design.....	66
(i) Turnaround time.....	66
(ii) Simplified boarding (new automated system).....	66
(iii) Distribution systems.....	66
(iv) No commission.....	66
4.3.3 Innovation and change.....	67
4.3.3.1 Game Theory.....	67
(i) Players.....	70
(ii) Added Values.....	71
(iii) Rules.....	72
(iv) Tactics.....	72
(v) Scope.....	73
4.3.3.2 4+2 Formula.....	76
(a) Strategy formulation.....	76
(b) Strategy execution.....	76
(c) Corporate culture.....	77
(d) Organizational structure.....	77
(e) Talent (recruitment and retention).....	78
(j) Leadership.....	78
(f) Innovation.....	79
(k) Mergers and partnerships.....	79
(l) Conclusion.....	79
4.3.4 Reasons for chosen competitive strategies.....	81
4.4 Porter's Five Forces Analysis.....	83
4.4.1 Threat of new entrants.....	84
4.4.1.1 Barriers to entry.....	84
4.4.2 Intensity of rivalry among competing firms.....	85
4.4.3 Bargaining power of buyers.....	86
4.4.4 Bargaining power of suppliers.....	87
4.4.5 Threat of substitute products.....	89
4.4.6 Conclusion.....	89

4.5	The Economy	90
4.5.1	What are the industry's dominant economic features?.....	90
4.5.2	What is the competition like and how strong are each of the competitive forces?	91
4.5.3	What is causing the industry's competitive structure and business environment to change?	91
4.5.4	Which companies are in the strongest/weakest positions?	91
4.5.5	What strategic moves are rivals likely to make next?	92
4.5.6	What are the key factors for competitive success?	93
4.5.7	Is the industry attractive and what are the prospects for above-average profitability?	93
4.5.8	Synopsis.....	94
4.6	Conclusion	95
Chapter 5 Recommendations and Further Research		97
5.1	Marketing and public awareness	97
5.2	Airline alliance	97
5.3	Capitalisation.....	98
5.4	Strategic Planning	99
5.5	Further Research	100
5.6	Conclusion	100
Chapter 6 Epilogue		101
List of References		103
Appendix 1: Examples of 1Time's "street marketing".....		112
Appendix 2 Interview Questions:.....		113
Appendix 2 Passenger Questions.....		115
Appendix 4 1time Group Structure of Shareholding Companies.....		117
Appendix 5: Comments that have been noted in a number of publications by various industry sources.....		118

Figures

Figure 1	A company's macro-environment (Thompson and Strickland 2001:74).....	13
Figure 2	The Five Forces of Competition Model (adapted from Thompson & Strickland, 2001:81)	16
Figure 3	Value Net (Brandenburger and Nalebuff, 1995: 60)	35
Figure 4	The Five Generic Competitive Strategies (Thompson & Strickland, 2003: 151. Adapted from Porter, 1980)	45
Figure 5	Five Forces Analysis of the South African Airline Industry	47
Figure 6	The Value Net from the 1time perspective	68
Figure 7	The Five Forces of Competition Model (Hitt, Ireland and Hoskisson, 2003:57) ..	83

Tables

Table 1	Summary of Research Findings.....	58
Table 2	Passenger Arrivals (domestic) at Johannesburg International Airport	73
Table 3	Passenger Departures (domestic) at Johannesburg International Airport	74
Table 4	Passenger Arrivals (domestic) at East London Airport.....	75
Table 5	Passenger Departures (domestic) at East London Airport	75
Table 6	Weighted Average Scores of “4+2 Formula” Criteria.....	80
Table 7	Ranking of Porter's Five Forces.....	84

Acronyms

AASA	Airline Association of Southern Africa
ACSA	Airports Company South Africa
ASATA	Association of South African Travel Agents
ASK	Available set kilometre
ATNS	Air Traffic and Navigation Services
AU	African Union
BSP	Billing and Settlement Plan
CAA	Civil Aviation Authority
CAASA	Commercial Aviation Association of Southern Africa
CRS	Central reservation systems
FSC	Full Service Carrier
GDP	Gross Domestic Product
IATA	International Air Traffic Association
LCC	Low Cost Carrier
LSM	Living Standards Measure
SAA	South African Airways
SARS	Severe Acute Respiratory Syndrome
U.S.A.	United States of America
VAT	Value-added tax

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"The safest way to become a millionaire is to start as a billionaire and invest in the airline industry", Richard Branson, Chairman of Virgin Atlantic

Declaration

I, Diane Potgieter, hereby declare that this research dissertation is my own and original work and that all the sources have been accurately reported and acknowledged. This document has not previously been submitted at any university for any qualification.

Chapter 1 Context

1.1 Introduction

This research report investigates the entry strategies of 1time Airline, a low cost carrier, into the South African airline industry as well as its competitive strategies within the South African airline context. There is a plethora of literature on low cost airlines internationally, but very limited documented information on the South African context. This chapter will discuss international airline trends and the move towards the low cost model as a background to the low cost airline industry in South Africa.

1.2 The global airline industry

The aviation industry has been in crisis for many years all over the world. After the first Iraq war there was a temporary revenue "bubble" which led to higher airline profits and major capacity expansions. An economic downturn at the end of 1990 resulted in overcapacities with yields showing a long-term decline. In the last quarter of 1990 the unprecedented gap between revenue and cost per available seat kilometre (ASK) not only closed, but became negative (Franke, 2004). The crisis deepened when airlines, most notably in the United States, and in particular, full service carriers, faced an unparalleled set of challenges since 1998. These challenges included both internal factors that are reshaping the airline industry and external events that sharply reduced the demand for air travel. Even before the events of September 11 the growth of the Internet as a means to sell and distribute tickets and the growth of low cost airlines as a powerful market force (again, mostly in the U.S.A., but also in the United Kingdom, Europe and Australia) were transforming the airline industry. A series of unforeseen events seriously and severely disrupted the demand for air travel. These included the September 11 terrorist attacks, war in the Middle East and associated security concerns, the Severe Acute Respiratory Syndrome (SARS) epidemic, global recession and a steep decline in business travel. With a significant capacity oversupply and high cost platform many airlines struggled to survive. For 2002 both United Airlines and American Airlines reported losses exceeding US\$ 3 Billion resulting in United Airlines, the second largest US carrier, filing for bankruptcy protection in 2002, while American Airlines narrowly escaped bankruptcy proceedings (Paul and Hartmann, 2003).

Some of the innovations open to traditional carriers included alliances and partnerships both of which boomed in the second half of the 1990's (Franke, 2004). Three major global alliances emerged as larger carriers arranged themselves in partnerships. Airline alliances benefit both travellers and carriers. Travellers are offered seamless travel while carriers can take advantage of some 'low hanging fruit' in the form of buying and bargaining power as

well as coordinated and integrated Information Technology solutions. However, although deregulation had aided the airline industry to a certain extent, efforts to relax rigid ownership regulations and bilateral air traffic agreements were not as successful. Consequently partnerships were not fully integrated resulting in cost reduction strategies envisaged not being realised. Although the partnerships can be regarded as significant leverage and strategic alliance for strength, this arrangement failed to prepare the traditional carriers for the advent of the low cost challenge.

Paul and Hartmann (2003) reveal that low cost airlines were recording record sales and profits in 2002 during the global airline industry crisis which caused the Belgian national carrier, Sabena, to close its operations, British Airways to cut approximately 12.5% of its workforce (\pm 7 000 jobs), KLM to plan slashing of several thousand jobs in an emergency cost-cutting drive and Lufthansa to report losses of approximately €415 million. Similarly, an American Government Accountability Office report (GAO, 2004a) claimed that low cost airlines maintained their unit cost advantage over premium carriers between 2000 and 2003, despite concerted cost cutting efforts by the latter.

In times of economic downturns, decreasing passenger numbers lead to excess capacity in terms of both fleet and personnel. For the economic downturn in 2002 a McKinsey Quarterly report (1995) estimated excess capacity, including aircrafts in storage, to be greater than it was at the same stage in either of the previous two downturns in 1982 and 1992.

The low cost carrier industry employs specific cost advantages, which make them a threat to traditional carriers (McKinsey Quarterly Report, 1995; Paul and Hartmann, 2003). These include lower input costs, cheaper product design and cheaper process design. Sustainability of low cost carriers is also cited in the McKinsey Quarterly Report (1995) as being critical to ascertain the threat posed to traditional carriers. It is therefore paramount to evaluate the extent to which low cost carriers can expand taking into consideration the possibility of their cost advantages beginning to narrow and their capacity (or lack thereof) to manage their growth. Some of the strategies employed by established carriers to strengthen their positions include reinventing their position and their operations, creating innovative revenue management by creating economies of scale on their hub-and-spoke routes, introducing loyalty programmes and developing yield management systems, which allow the traditional carriers to equal their low fare rival's fares on some seats without diluting total revenue (McKinsey Quarterly Report, 1995).

These developments resulted in the emergence of four distinct airline business models.

1.2.1 Traditional, full service carriers

These carriers offer all the luxuries associated with full service, premium, scheduled airlines and use many channels of distribution. Examples of such services include business and economy class cabins, frequent flyer programmes with potential access to exclusive airport lounges, pre-seating, as well as complimentary onboard hot meals and beverages.

1.2.2 Low cost carriers

Low cost carriers endeavour to keep their operational costs to a minimum by offering limited scheduled services to their entirely economy class cabin. Reservations can generally only be made online, although some employ a small call centre. Seating is usually on a first-come, first-served basis and no frequent flyer programme is offered. Snacks and beverages can be purchased onboard.

1.2.3 Regional / niche airlines

These carriers operate scheduled flights on niche, high volume routes and can adopt either a premium or low cost operating model.

1.2.4 Charter airlines

Customers can hire a charter aircraft for private travel in small or large groups to destinations of their choice with adequate airport facilities. Charter airlines charge a premium for their superior and exclusive onboard services.

The various business models emerged around the late 1970s. Until this time most governments pursued policies to control strategic sectors of the economy aiming to promote economic development, protect sovereignty and protect national identity. In the late 70s, however, the mindsets of governments changed and market-orientated ideas such as deregulation, privatisation and competition became favoured. The United States deregulated the domestic airline industry under the Airline Deregulation Act in 1978 (Oh, 2002), fifteen years before Europeans began to abandon state control.

1.3 The low cost phenomenon internationally

A United States General Accounting Office Report (GAO) of June 2004 distinguishes two primary cost components that comprise the unit cost difference between traditional airlines and low cost airlines: labour costs and asset-related costs. Traditional, so-called "legacy" carriers have high labour costs owing to a highly tenured, unionised workforce, while low cost airlines are able to keep labour costs down because of a younger and lower paid work

force but also by achieving higher levels of labour productivity than premium airlines. In addition, premium carriers have higher asset-related costs than low cost airlines, because premium carriers generally have older fleets and more types of aircraft in their fleets than low cost airlines. The traditional airlines also put their planes in the air fewer hours per day than low cost airlines.

As the weak international economy suppressed demand, several low cost airlines in Europe and North America have prospered. In August 2004 another GAO Report stated that since 2000 low cost airlines have a sixty-seven percent unit cost advantage over their traditional airline competitors, compared to forty-five percent in 2000 (both these percentages are calculated after adjusting for differences in the average distances flown). This has brought renewed focus on the nature of low cost airlines' strategy, with many conventional airlines rapidly seeking ways of imitating them, or at least diluting some of the key features.

The expansion of the low cost carrier (LCC) market is one means by which the aviation sector is adjusting to changing market conditions. LCC concepts are critical to reducing international airline costs and developing a sustainable aviation environment. They have emerged after a decade of declining yields among full service operators, changing customer expectations, increasing instability in the sector and some spectacular corporate failures (e.g. Enron).

LCCs offer a business model that reduces some of the financial challenges that confront full service operators. They also offer opportunities to provide additional services and tap new markets. As a result they have contributed substantially to the continued growth of leisure and business travel in North America and Europe and to a lesser extent in some parts of Asia and Australia. The advent of LCCs in South Africa is a relatively new phenomenon. Generally, LCCs have succeeded in a time of great industry turbulence, showing resilience in the face of difficult economic conditions.

In reporting on the low cost phenomenon world-wide, the next paragraphs focus on the following three low cost airlines (one per continent) in order to evaluate their cost reduction techniques and operational models: Southwest Airlines in the United States of America, Ryanair in the United Kingdom and Europe, and Virgin Blue in Australia.

1.3.1 Southwest Airlines

By targeting the least-demanding customers in an existing marketplace with a lower-priced product Southwest Airlines was the primary instigator of a low-end disruption in the air travel market during the mid-1980s. Southwest rejected the hub-and-spoke system and instead

created an economical network of point-to-point short-haul flights while using less expensive gate slots at secondary airports whenever possible. Southwest Airlines serves price- and convenience-sensitive travellers. The essence of its strategy is in its activities, in that it chooses to perform activities differently or to perform different activities. Michael Porter (1996) provides evidence that Southwest tailors all its activities to deliver low cost, convenient service. This is achieved through quick turnaround times, thereby keeping aircraft flying for longer hours with more frequent departures and using fewer aircraft than competitors. The airline does not offer a meal service, pre-seating assignment, interline baggage checking or a premium/business class. The ease of their automated ticketing procedure encourages passengers to bypass travel agents, which in turn saves Southwest paying commission to travel agents. Porter (1996) claims that no full service airline could be as convenient or as low cost as Southwest on the routes served by them. Although Southwest regularly creates innovative ways of differentiating their service, the airline does not tamper with the fundamental features of its strategic formula. One of the largest cost savers of Southwest is that it avoids having to perform tasks that would typically slow down other carriers.

The Southwest business model is not necessarily easily transferable. Continental and United Airlines both attempted to copy the Southwest model for their low cost U.S. subsidiaries. Although they were able to duplicate the route structure and other observable and quantifiable elements, they failed to emulate the Southwest Airlines corporate culture which is the key to its success (Couvret, 1996). Southwest's sense of regional focus and its development of its route network are also key to its competitive advantage (*ibid.*).

In addition, Southwest's high product quality is a key element in its success (Oh, 2002). In particular, product quality characteristics such as direct flight services, shorter flight distance, frequency of flights and large destination airport shares are important factors determining Southwest's entry and its ability to obtain large market share. Southwest is less likely to enter markets where the destination airport is congested or highly concentrated. This indicates that Southwest enters where it can offer superior product quality by overcoming inefficiencies in a hub-and-spoke network system. The element of successful market entry is the ability to surmount the advantages of major airlines having hub-and-spoke networks and having created their own cost savings with economies of scale.

1.3.2 Ryanair

Since its inception Ryanair has purposefully and openly emulated the Southwest Airlines business formula, albeit slightly adapted for the European context (Robinson-Humphrey

Company, 1997). Like Southwest, Ryanair has a single fleet type, the Boeing 737 aircraft, and is the lowest cost scheduled operator on all its routes. It has high annualized load factors system-wide and unique low cost prerogatives such aircraft, suppliers and staff. Ryanair's effective use of outsourcing has numerous benefits, serving to lower its long term capital investments, increase its flexibility and significantly leverage its key capabilities (Quinn and Hilmer, 1995).

Unlike Southwest, Ryanair did not invoke vigorous competition with any major carrier on its core routes. However, on their Dublin-London route, Ryanair has gone head-to-head with Aer Lingus in the competition for air traffic thereby Ryanair posing a threat to Aer Lingus' dominant position, prompting the Irish state carrier to launch a low cost competitor in the form of "Aer Lingus Commuter". This has not appeared to impede Ryanair's growth and expansion strategies.

A Morgan Stanley report (1997) illustrates that typically, passenger traffic on a route grows rapidly after Ryanair's entry, often doubling or even trebling the existing traffic within a few years.

Ryanair's regional focus is in the United Kingdom and Ireland markets. Although it has branched out to other parts of Europe, its focus on the home base remains clear and committed. Ryanair may however be in danger if it expands too far, too quickly, losing sight of its regional base and entering into an industry position where it may be caught between large, global carriers. At present, Ryanair is likely to be the most successful low cost carrier in its region with routes being built on the solid base of home territory.

Southwest and Ryanair's aforementioned rapid gate turnaround which allows for frequent departures and greater use of aircraft, is essential to their high-convenience, low cost positioning. A primary facilitating factor is the way in which these airlines perform other activities. By eliminating the meal service, seat assignment and interline baggage transfers, for example, they avoid having to perform activities that would typically slow other airlines down. They also select airports and routes with little congestion, further decreasing the likelihood of delays, but also allowing them to negotiate cheaper airport fees (landing and departures) with the under-utilised airports which assists in keeping costs down. Possessing a standardised fleet further contributes to their cost cutting drive as training costs are reduced and maintenance is standard on all aircraft. The competitive advantage of Ryanair and Southwest derive in large part from the way their respective activities are appropriate to their business model and support one another. As argued by Porter (1996), fit between business model and activities locks out imitators by creating a chain that is as strong as its

strongest link. Both airlines' activities complement one another in ways that create real economic value and achieve substantial cost reductions.

1.3.3 Virgin Blue

The deregulation of the Australian domestic airline market was in 1990 (Forsyth, 2003) produced several airline start-ups, most of which have succumbed to internal or external pressures imposed mainly by inadequate start-up capital, deficient management, dominant competition or inherent barriers to entry (Nyathi, Hooper and Hensher, 1993). One of the incumbents, Ansett, ceased operations entirely by March 2002. Barriers to entry reflect their small aviation markets in world terms; Australia's trunk routes produced approximately A\$ 10 billion in revenue annually, compared to US\$ 110 billion in the U.S.A. and US\$ 105 billion in Europe (Forsyth, 2001).

After the collapse of Ansett, the two remaining airlines Qantas and Virgin Blue added capacity to pick up the more than forty percent of the market held by Ansett. Launched in early 2000, Virgin Blue, a subsidiary of the Virgin Group, in particular benefited from the collapse of Ansett as it had to face tough competition. In early 2003, Qantas had approximately seventy percent of the market, with Virgin Blue enjoying the remainder.

Although there are many similarities between the strategies adopted by comparable airlines in North America and Europe, there are also significant differences. In comparison with the other continents there seem to be more similarities between the Australian and South African contexts. For this reason the Australian contexts will be investigated more closely by reporting on airports and routes, fares and marketing, and costs, finance and ownership.

1.3.3.1 Airports and routes

The sheer density of the Australian market means there is scope for more than two airlines. Virgin Blue, like the largest Australian rival, Qantas Airways, has chosen to operate on the main, high-density routes. Out of necessity Virgin Blue uses the same airports as other airlines, but, with the exception of Sydney, there are no capacity problems at Australian airports. In addition, unlike the situation in North America and Europe, there are only a few conveniently located secondary airports with the capacity to handle passenger traffic.

Hub-and-spoke networks are not as heavily utilised in Australia as they are in North America and Europe. Incumbents and new entrants have had some connecting traffic, although Virgin Blue is reported to have shorter turnaround times at airports than Qantas.

Usually, the biggest hurdle faced by entrants is obtaining terminal facilities. By 2000 some recently privatised airports in Australia have allowed for multi-user terminals to accommodate entrants. Since the collapse of Ansett however, several airports have had excess terminal space available to entrants.

Virgin Blue has a fleet of Boeing 737's which are smaller, flexible aircraft. Compass, the first low cost carrier in Australia, which lasted roughly two years, used larger Airbus A300 aircraft which it found difficult to fill. The choice of aircraft by Compass is regarded as a factor in its demise, particularly with its simple fare structures.

1.3.3.2 Fares and marketing

All the new Australian entrants have chosen simple fare structures and disregarded frequent flyer programmes. Most have operated a single service. Virgin Blue adjusts their fares subject to the load factors on their flights: minimum fares would be higher on busy flights. Their pricing strategy has also been well designed, offering some restrictive fares and some which are more flexible, thereby attracting many more business travellers. With the exception of only one or two, most of the new entrants were not willing to enter into price wars and rather sold fares close to cost while expecting to incur losses in the first year or two of operation.

Virgin Blue has been able to build up brand loyalty without large expenses as the Virgin Group is particularly successful at creating free public awareness. Despite Australia having high Internet access and credit card usage making Internet sales easy, use of the Internet in selling tickets has not been as extensive as in Europe.

1.3.3.3 Costs, finance and ownership

As per the LCC business model globally, the Australian entrants have sought to achieve lower cost structures than those of incumbent airlines. Although information on costs is limited it is acknowledged that entrants have been able to achieve significantly lower costs (Bureau of Transport and Communications Economics, 1993). This has been achieved through avoiding complexities and focusing on simpler networks, offering a no frills operation, avoiding costs of providing high quality and variety and higher capital utilisation. Unionised traditional carriers already being locked into workplace agreements, Virgin Blue was able to negotiate more productive working agreements with staff, often paying lower wages. In addition, by being linked to a major global player which extends beyond airlines, Virgin Blue is further advantaged. Apart from financial backing, Virgin Blue can ride on the

reputable brand name created and developed by the Virgin Group. Other new entrants did not enjoy the same benefits.

1.4 The African and South African Airline Context

Already in 1999 the Yamoussoukro Agreement was signed by 28 African countries to allow for an "open skies" policy for African private airlines to operate within Africa on all routes. However, as late as May 2005 a meeting of the African Union (AU) transport ministers failed to deliver a much-awaited proper implementation timetable for the Yamoussoukro Decision. Although the implementation of the Yamoussoukro Decision was agreed to and ministers committed to submit action plans to the AU to be implemented within twelve months, no submission date for implementation was set, despite recommendations from aviation officials for the agreement to be phased in by the deadline of 2010. The Yamoussoukro Agreement was endorsed by AU Heads of State in 1999 and was due to be implemented by August 2002 (TIR, May 2005). What could have been Africa's most noteworthy aviation development in terms of privatisation for entrepreneurial development and increased airline competitiveness has been left up in the air by political procrastination. The then Deputy Chief Executive of the Airline Association of Southern Africa (AASA), Chris Zweigenthal, mentioned that the meeting had encouraged implementation on a regional and bilateral basis. He added that it was unfortunate that in terms of the fifth freedom rights, third country cooperation would still be needed (TIR, May 2005). To date the legalities and implementation have not yet been concluded. The topic of the policy and agreement of its content is still heavily debated and despite the pressure by airlines on government to expedite the matter, progress is slow (Airline Association of South Africa Conference, 2005). John Morrison, then Chief Executive of AASA, stated that it is time Southern African governments stopped paying lip-service to the liberalisation of air traffic routes and let market forces dictate the industry's future. He also questioned the wisdom of government-owned airlines which were "overweight, inefficient and state-subsidised competing with the private sector" (TIR, October 2005a). Morrison added that with 104 airlines now operating in Africa, many of which are subsidized by their respective governments, mergers are needed to create fewer, stronger carriers. According to Morrison, the airline industry globally needs to change its dynamics and operations to stop its "financial haemorrhaging", with global losses over the past five years exceeding US\$40 billion. Positive statistics quoted by Morrison include the highest traffic growth since 9/11 at an all time high of 80% average global load factors and growth rates in Africa, stimulated by low cost carriers, contributing to double-digit growth in South Africa.

Despite these comments, Morrison believes that traditional airlines have not become more profitable because of overcapacity and low cost carriers driving down yields. Morrison said that even yields experienced by low cost carriers were only marginally sustainable. In a publication by the Travel Industry Review (TIR, October 2005a), Morrison claims that increased competition from low cost airlines may result in full service airlines becoming less viable, while the LCCs themselves will become unsustainable in the long term due to their low fares which require high load factors. This is a questionable statement from Morrison based on the exponential growth and financial (TIR, October 2005b) success of LCCs such as Southwest and Ryanair. In Morrison's view, the low cost phenomenon resulted in a shift of power with airlines losing control over their pricing and consumers becoming all-powerful. This is another loaded and debatable statement. If carriers enter into long-term, unsustainable price wars this could well be the case. However, airline management would be foolish to embark on such a strategy if they do not have substantial financial backing. Morrison added that he nevertheless believes that low cost airlines would see the highest passenger growth in the next five to ten years.

Many industries are under attack from low cost competitors which pose a threat and eat into the margins and market share of their more established rivals. In South Africa, the advent of low cost airlines is a force to be reckoned with by the traditional full service rivals. The reality of how the South African market would handle the advent of 1time Airline, in competition to incumbent low cost airline, kulula.com, was underestimated and miscalculated by Morrison, a leading aviation industry expert.

It will be interesting to note the response by South Africa's full service carriers to the threat of the relatively new low cost entrants. In other industries, incumbents facing disruptive entrants typically thrive for a time by moving to more profitable upmarket tiers. While companies in other industries have more options when attacked, such as computer companies which can migrate to high-end products with lower volumes, traditional carriers cannot make that move (Christensen, 1997). The high fixed-cost structure of hub-and-spoke airlines means that they escape from the volume in the lower tiers of the market (Christensen, 1997).

1.5 Conclusion

This chapter provided an overview of the global airline industry using examples of airline successes ranging in scope from the international aviation arena to the South African context. In the light of the growing number of both full service and low cost airlines failing, the question about what new entrants should do in order to be sustainable is raised.

With regard to low cost airlines, it seems clear that cost control to achieve maximum cost reduction is paramount in order to offer the best fares. This implies faster turnarounds of aircraft to increase flying time per day; requiring increased levels of productivity of staff.

Can it be assumed that organisational size and structure are also key factors to sustainable success? Are strong leadership and the selection and retention of talent an imperative? What are the emotive drivers of the entrepreneurs to risk entry in this turbulent industry?

This investigation evaluates the low cost model developed by airlines, with specific focus on 1time Airline. Examination of 1time's cost cutting measures and the sustainability of the airline will also be undertaken. Chapter 2 examines theory which provides some insights into the entry strategies and competitiveness of the airline.

Chapter 2 Competitive Strategies

2.1 Introduction

This chapter will analyse the literature and theory associated with business level strategies and competitive advantages sought by firms seeking to be profitable and sustainable.

A company's strategy is defined as "the game plan management is using to stake out a market position, conduct its operations, attract and please customers, compete successfully and achieve organisational objectives" (Thompson and Strickland, 2001:3). Competitive strategy has a narrower meaning than business strategy in that it focuses only on competitive issues in order to ascertain how the business will outperform competitors by creating and / or providing products or services of greater value to customers (*ibid.*).

1time's competitive strategies will be evaluated from the following theoretical perspectives:

- Industry and Competitive Analysis to identify the macro-environment in which the airline operates
- Five Forces Analysis to recognise the competitive environment in which the airline operates
- Generic Strategies to determine to what extent it uses Michael Porter's generic strategies to defend itself against the identified 5 forces
- "4+2 Formula" to ascertain to what extent 1time carries out activities practised by winning companies
- Game Theory to determine the extent to which 1time is allocentric; to what extent it strives to diminish the value added by its competitors and to what extent it practises win-win strategies.

2.2 Industry and Competitive Analysis

Industry and Competitive Analysis should be the first step to engaging in formulating strategy. The company being evaluated should be placed in the centre of the immediate industry and competitive environment, while the macro-environment encompasses all of these elements (see Figure 1).

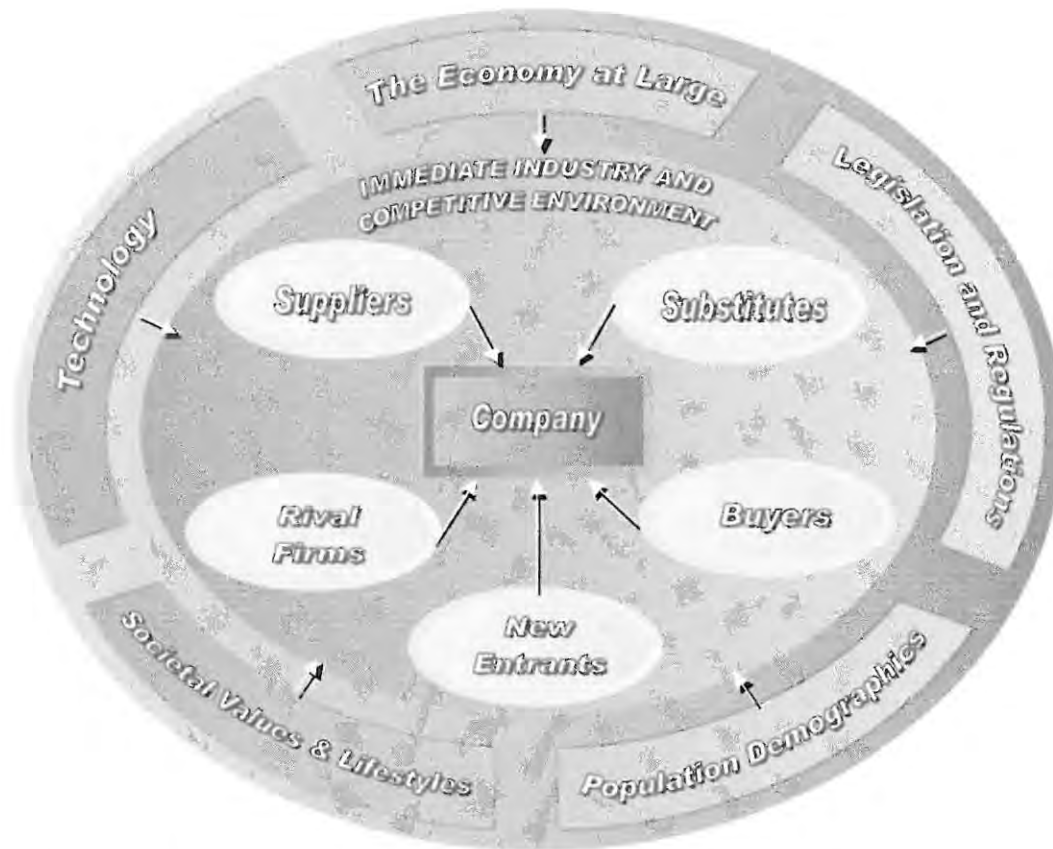


Figure 1 A company's macro-environment (Thompson and Strickland 2001:74)

This industry and competitive environment is affected by the greater macro-environment. The economic and competitive nature of industries varies widely. The airline industry, for example, will bear little similarity to the fast food industry. Factors such as the size and market growth rate, the velocity of technological advances, geographical boundaries, legislation and societal values and lifestyles all affect the business. Taking all the factors into consideration, this analytical tool encourages strategic thinking in an overall situation and establishes the attractiveness of the industry. According to Thompson and Strickland (2001: 76), the goal of industry and competitive analysis is to develop insightful answers to seven questions:

1. What are the industry's dominant economic features?
2. What is the competition like and how strong is each of the competitive forces?
3. What is causing the industry's competitive structure and business environment to change?
4. Which companies are in the strongest/weakest positions?
5. What strategic moves are rivals likely to make next?

6. What are the key factors for competitive success?

7. Is the industry attractive and what are the prospects for above-average profitability?

Each of these seven questions will be explored within the context of 1time Airlines in the following sub-sections:

2.2.1 Question 1: What are the Industry's Dominant Economic Features

As discussed in paragraph 1.2, international factors impacting on the airline industry include:

- a long term economic downturn since 1990;
- safety concerns due to the September 11 terrorist attacks in the U.S.A. resulting in subsequent airline losses with consequent overcapacity of airline personnel and aircraft;
- the war in the Middle East;
- the SARS pandemic; and
- the decline in business class travel.

Additional dominant economic factors need to be considered as well.

The global economy expanded at a rate of 6% (at purchasing power exchange rates) in 2004 while by the following year global expansion was likely to be sustained and interest rates in major industrial countries likely to normalise (DTI, 2005).

In the past decade from 1995 to 2004, South Africa has accomplished six consecutive years of economic upswing and averaged 3% per annum real economic growth. Domestic spending by households, government and business enterprise has been strong. The macroeconomic outlook is encouraging, with the South African economy having matured and the economy well-positioned for further growth (DTI, 2005). GDP growth experienced over the last three years is expected to continue. Although currently driven by a spending boom, the GDP growth is believed to have strong economic foundations as embedded in economic policies adopted over the last ten years, coupled with a successful political transition (DTI, 2005). The purchasing power of incomes has been bolstered by low inflation and a stronger Rand. The weighted exchange rate of the Rand not only appreciated by 24.4% between end December 2001 and end December 2002, but improved by a further 16.2% between end December 2002 and end December 2003 (South African Economy, 2006). As a result, retailers' pricing behaviour changed the inflation setting in South Africa as profits were made from high volume growth supported by low prices rather than through

higher margins in favourable economic conditions as has been illustrated in the past (DTI, 2005).

Due to South Africa's favourable economic situation at the time of 1time Airline's start up, coupled with local and international political factors, a window of opportunity was created.

2.2.2 Question 2: What is competition like and how strong is each of the competitive Forces?

Introduced by Porter in 1979 the Five Forces of Industry Analysis is widely used by strategists for industry environment scrutiny, business strategy formulation and evaluation of the strength of industry forces. Companies cannot merely concentrate on direct competitors but must assess the competitive environment in its entirety. The Five Forces Model as illustrated in Figure 2 expands this assessment by identifying current and potential competitors in all facets of the business arena.

The essence of the Five Forces Model is captured in by centre part of Figure 1 on page 13. The Five Forces Model is a valuable analytical tool for methodical exploration of the competitive environment in which a firm exists. The model identifies and assesses the strength of each of the forces.

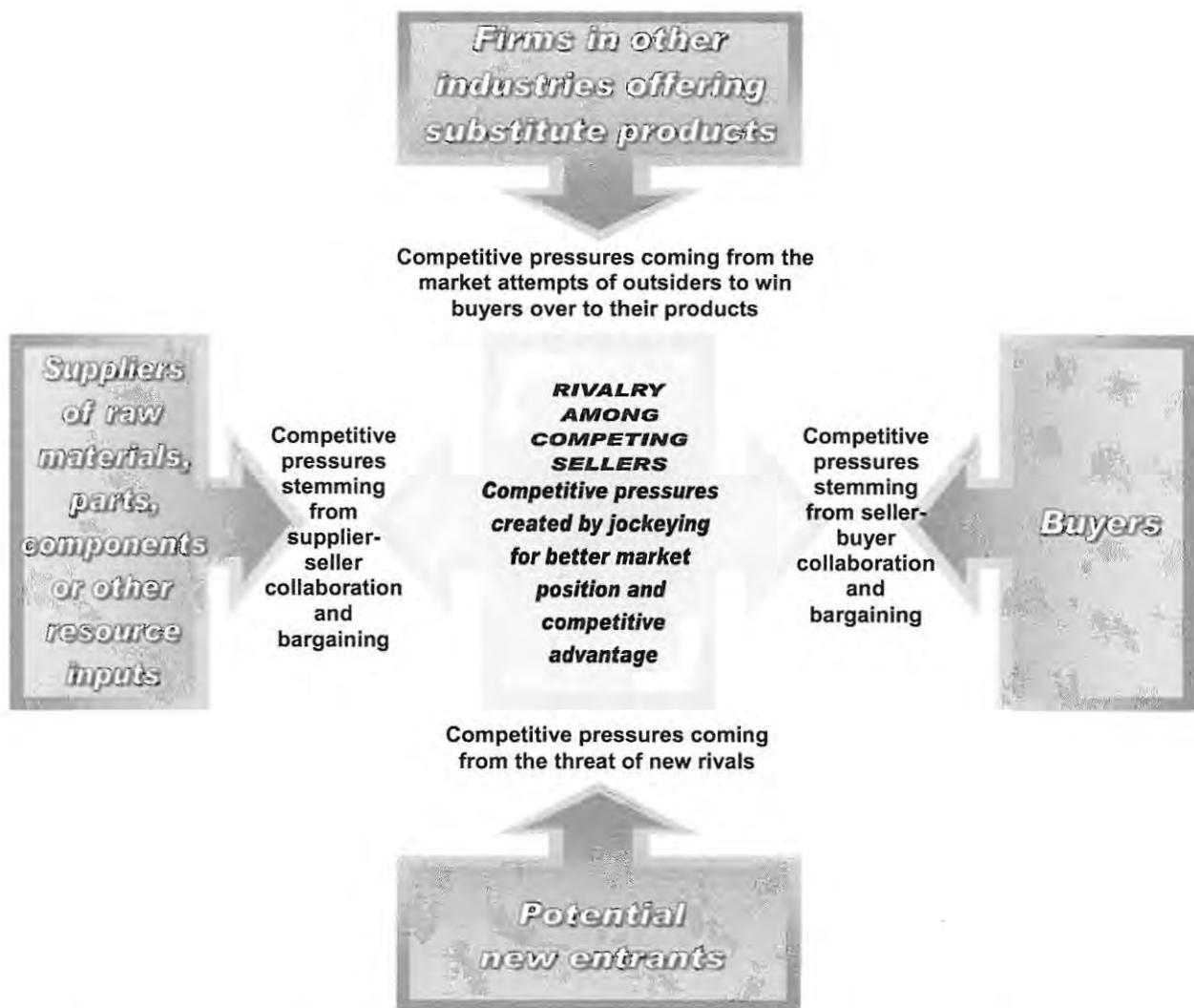


Figure 2 The Five Forces of Competition Model (adapted from Thompson & Strickland, 2001:81)

2.2.2.1 Intensity of rivalry between competing firms

Vying for market share is paramount for most businesses, but particularly for those who use a Cost Leadership strategy. The intensity of the rivalry among competitors can increase when one company identifies a potential new opportunity to satisfy customers or when its market share and ultimately its profitability are threatened. Companies must formulate a strategy to exploit their competitive advantage. However, it is noted that often one firm’s strategy is largely dependent on the strategy employed by its rivals and the resources the rivals are prepared to expend to execute their strategy.

Common factors that increase the level of intensity among competing rivals (Thompson & Strickland, 2001:82-83) include the following:

1. Rivalry intensifies as the number of competitors increase and their capabilities become proportionate.
2. Rivalry intensifies when growth of the need for the product or service is slow.
3. Rivalry is magnified when competitors attempt to increase their volumes by introducing price cuts.
4. Rivalry is boosted when the cost for consumers to change brands is low.
5. Rivalry is vigorous when a competitor introduces actions to boost their market position at the expense of rivals.
6. Rivalry increases proportionately with the size of the reward to be gained from a strategic opportunity.
7. Rivalry is stronger when high exit costs exist.

In November 2003, prior to the start up of 1time, the CEO, Glenn Orsmond claimed that 1time's fares would be the lowest in the market (D'Angelo and von Lieres, 2003). Although Novick of kulula retorted that his airline would remain lowest, Orsmond insisted that 1time's fares would show that kulula's are not the cheapest possible, adding that some of kulula's fares are as much as R1020.00 one way between Johannesburg and Cape Town after the cheapest seats had been sold. Orsmond felt that kulula's success had been achieved on the back of BA/Comair, where 1time would be an independent, truly low cost airline.

The rivalry between all the domestic airlines is fierce. The relationship between 1time and kulula is particularly poor, due to most of 1time's management previously being employed by kulula. 1time's CEO, Glenn Orsmond, was previously the Financial Director for kulula. Subsequent to Orsmond's move from kulula, five senior staff members soon followed (van Niekerk, 2003).

2.2.2.2 Threat of new entrants

There is still no certainty from South African Airways (SAA) whether or not they will start up a low cost division to compete directly with 1time and kulula. For 1time the threat of SAA launching a low cost division is much greater than any other airline start up due to SAA's parastatal status and associated financial backing by government.

The threat of potential new entrants in any industry is subject to two factors: barriers to entry and the expected retaliation of existing rivals. Barriers to entry exist when it is difficult for a

new entrant to penetrate the market or where economic conditions place the entrant at a distinct disadvantage over its competitors. These include (Thompson and Strickland 2003:57-59):

- Economies of scale: increasing economies of scale augment a company's strategic flexibility. New entrants may be discouraged as small-scale entry puts them at a cost disadvantage while large-scale entry may evoke greater retaliation by incumbent competitors.
- Customer loyalty and switching costs
- Cost disadvantages independent of scale
- Government policy
- Capital requirements
- Access to distribution channels

Seeking niche markets not being served by incumbent firms may enable new entrants to avoid entry barriers. On entering the market, 1time had to overcome barriers of entry and expected retaliation from competitors.

Barriers to entry

At the time Kulula was offering fares at approximately 40% lower than those offered by SAA. 1time launched with fares approximately 60% lower than those offered by SAA at the time. 1time's CEO, Glenn Orsmond, claimed that the carrier was saving up to 70% in Rand terms by exploiting the window of opportunity to acquire planes at low rentals (Fraser, 2004). This opportunity significantly assisted 1time in overcoming the cost disadvantage other new entrants may have, independent of scale. Prior to the launch, Orsmond stated that what sets 1time apart from other carriers is that they advertise their highest price so that passengers will pay that advertised price or lower, although these "highest" fares would comprise only about 20% of the seats. The logic was to guarantee consumers that no passenger will pay more than the advertised fare (Singh, 2004) as is so often the case with airlines that offer special fares but exclude airport taxes and hidden terms and conditions. As said by Orsmond at that time, "We want to grow our business on volume, not price. 1time will be known as the low price leader. Our unique selling point is the simplicity of our pricing and our ability to generate low fares. There is a huge surplus of empty seats in the market, but there is a huge shortage of cheap seats". (Fraser 2004).

1time was the first airline to offer all-inclusive fares whereby all the airport taxes and VAT were (and still are) incorporated into one ticket price. Kulula followed this practice three days later. 1time also did not join the global trend of charging fuel levies to compensate for the fuel price increases in 2004. All other South African domestic carriers, including kulula, introduced a fuel levy at that time (D'Angelo, 2004). Kulula soon dropped the fuel levy after a media release reporting that all domestic airlines apart from 1time charged fuel levies.

1time, however, did not only rely on offering their customers a cost advantage over their competitors in entering the market, but also embarked on a very aggressive marketing campaign consisting of many innovative marketing strategies. 1time was, for example, the first airline to initiate guerrilla advertising. Street hawkers were paid R100 to hold boards at street corners and traffic lights which displayed 1time advertising (see Appendix 1). This proved to be an inexpensive, yet highly effective medium to advertise and attract public awareness.

Another highly effective marketing strategy involved participating in air shows held annually at Virginia Airport in Durban North and Wonderboom, North of Pretoria, and biannually in East London. Unlike other scheduled airliners who usually only offer static displays (i.e. the aircraft is parked on the ground for spectator viewing, 1time has displayed spectacular demonstrations with their MD 82 aircraft. (At the 2005 air show in East London, pilot and shareholder, Gavin Harrison, won the award for "Best Air Display of the Day" for being able to "handle a commercial airliner like a fighter-jet"). These flips cost 1time approximately R10 000 each, but by flaunting the jet liner as it has, 1time has gained much more by "word-of-mouth" awareness, publicity and the controversy of the extravagant show. Kulula has since begun participating similarly at air shows as these are generally well-attended promotional events which appear to create interest and awareness of the airlines at a reasonable cost.

In an attempt to create additional revenue for the airline, 1time was also the first to sell advertising on an aircraft as a "flying billboard". The fast food restaurant, Nando's, paid 1time R75 000 per month for a one year advertising campaign whereby one of 1time's aircraft was painted to display Nando's advertising, thus resulting in R 900 000 in revenue. Similarly, Nashua's advertising is displayed on the removable leather head-rest protectors on some of the DC9 aircraft, which earns the airline another R 30 000 per month. In addition, Nashua provides 1time with one cell phone package per month for a passenger competition giveaway. Nashua recently renewed the deal for a further eighteen months. Both the Nando's and Nashua agreements were effective, innovative methods of creating additional revenue for the airline.

The company started with four entrepreneurial men, Gavin Harrison, Glenn Orsmond, Rodney James and Sven Peterson (<https://www.1time.aero/portal>) who had a wealth of experience in the aviation industry and a "hunger to do things their way: with no nonsense integrity". Through their aviation holding company, Afrisource Holdings, the entrepreneurs collective owned Aeronexus, an aviation company that offers aircraft management, crewing and aircraft maintenance services. They realised that this setting made an ideal "launch pad" for setting up an airline. A business plan was drawn up with 50% of the shares retained by Afrisource Holdings and the remaining 50% taken up by Mogwele Investments, a black empowerment partner (20%), and an IT group (30%). Their business model was strengthened by diversity and IT skills without which it is near impossible to succeed in modern business. These two shareholding companies with the advantage of the maintenance company, Aeronexus, created a sound platform and supporting structure for the start up of the airline.

The start-up costs for an airline are astronomical. Not only are aircraft required, but fuel, skilled staff, often costly distribution systems, head office premises, and airport facilities for aircraft, check-in and ticket sales. Due to the failure of many new entrants in recent years (e.g. Phoenix, Flitestar, Blue tail Sunair, Red tail Sunair), legislation compels any and all new entrant airlines to put down a deposit in the form of a bank guarantee. Equivalent to three months' forward sales this mandatory guarantee is aimed at protecting consumers from forfeiting their money in the event that the airline ceases operations and / or is declared bankrupt, as has been evidenced in the past. 1time is currently the only airline in South Africa with this guarantee in place. All the other South African airlines had their licenses issued prior to this legislation being passed. This financial outlay for starting up can be a vital barrier to entry, but with the support of their shareholders, 1time was able to overcome this hurdle. By the time 1time launched their flight service the market was ready for the low cost airline.

Apart from the bank guarantee, new airline entrants must submit a detailed business plan to the Civil Aviation Authority (CAA) to be evaluated by the CAA board and allow for objecting parties to give evidence. Thereafter a full inspection of the maintenance facilities and each aircraft the airline intends operating have to be conducted. A Crew Training Manual and a full Standard Operating Procedures Manual must also be tendered.

Expected retaliation from incumbent firms can be vigorous, particularly in cases where existing firms have major stakes in the industry, substantial resources and in cases where industry growth is slow. The following section describes some examples of incumbent airlines' retaliation to news of 1time's start up.

Expected retaliation

In November 2003, three months prior to 1time's inaugural flight, SAA's then spokesman, Richard Mkhondo, said that SAA welcomed the planned launch of 1time as it would offer consumers a greater choice (Phasiwe, 2003). He added that SAA and its subsidiary, SA Express, had no intention of trying to compete with a no-frills airline, saying that SAA is not a low-cost carrier and there was no reason to change. In December of the same year, Mkhondo said SAA was considering whether to launch its own no-frills airline and had responded to 1time advertising by introducing a range of special fares. On 19 January 2004 just over a month prior to 1time's launch flight, Mkhondo announced that "SAA is studying the situation and will remain competitive ..." (Business Report, 2004a).

Prior to 1time's launch flight, Gidon Novick, then Executive Director of kulula, said that kulula would offer the lowest fares in the market "without compromising on passenger safety" (Phasiwe, 2003). Novick added, "Our cost structure ... can be undercut only by compromising on safety". At that time kulula predicted in the media that history may repeat itself with an ensuing price war that could leave some airlines grounded and passengers stranded. Two months after these statements by kulula, they released 100 000 seats to the market at prices slashed by up to 30% off their usual fares. 1time shareholder and Marketing and Operations Director, Rodney James, responded saying that kulula's special fare announcement had been expected and that the flying public would realise that kulula's fares will increase again once the special offer ends. James also claimed that Comair's chairman had told 1time's partners and management that they had budgeted R100 million to knock 1time out of the market (Wilson, 2004). Kulula dismissed the notion that the seat sale was pre-emptive of 1time's launch and ascribed the slash in their fares to the acquisition of four MD82 jets, which were 30% cheaper to operate. Novick stressed that kulula is focused on safety, followed by offering the lowest price (Wilson, 2004).

The media emphasis kulula had placed on safety just before 1time's launch can be interpreted as a competitive response. However, what had started out as a tactical response by kulula subsequently backfired to the detriment of both kulula and 1time. With comments from Novick such as, "Costs can only be cut to a point before it starts affecting safety" (van Niekerk, 2003), kulula subtly created a link between low fares and safety. Yet, subsequent to 1time's launch, kulula responded by substantially lowering their fares in order to compete with 1time. Due to the link between safety and price, a perception was created that low cost carriers in general were unsafe (Steenkamp, 2005), attracting negative media attention for both kulula (Pelser, 2005; news24.com, 2005) and 1time (Prince, 2005). Strategic actions

are now continuously sought by both low cost airlines to reverse this damage and regain consumer confidence.

The intensity of rivalry within the industry is on-going.

2.2.2.3 Power of suppliers

The power of suppliers is dependant on whether suppliers can negotiate the terms and conditions of supply to their benefit and what the extent of cooperation is between suppliers and sellers.

Supplier bargaining power is minimal when their products or services are readily available and easy to access from numerous other suppliers and when substitutes for the supplier's items are acceptable. Suppliers have less leverage when the company they service is a major customer. However the reverse of this is also true, companies have little or no bargaining power with major suppliers. Suppliers who manufacture cheaper items are also more powerful.

Collaboration between sellers and suppliers include partnerships and other strategic plans for a seller to form a close working relationship with limited suppliers in order to achieve four goals (Thompson and Strickland, 2001:90):

1. lower inventories, just-in-time deliveries, reduced logistics costs
2. hasten the availability of latest, advanced stock units
3. ensure good quality products are received
4. reduce the supplier's costs to obtain products at lower rates

At entry level, airline suppliers are an essential part of the foundation of the start up. Due to the string of airline failures in South Africa, the suppliers are understandably averse to taking risks. In 1time's case large deposits were required by the Airports Company of South Africa (ACSA), Air Traffic and Navigation Services (ATNS) and the fuel companies for their services and products. The force of suppliers was evidenced by a fuel shortage on 11 December 2005, leaving airlines and passengers stranded (Reporter, 2005). Another recent example of the power of airline suppliers, this time by ACSA, was the closure of Cape Town International Airport on 27th November 2005 following a hole being discovered in the runway. All in- and outbound flights at the airport were brought to a halt for repairs to the two runways at the point of intersection. All the flights were affected, causing backlogs in air traffic which only began recovering on Tuesday 29th November 2005 (d'Angelo, 2005e). The closure of the airport resulted in substantial losses affecting all airlines on this route. ACSA offered no

compensation to their clients, the airlines, and no apology was received by the airlines or the passengers.

2.2.2.4 Power of buyers

The power of buyers is dependent on their ability to negotiate the terms and conditions of sale for their own benefit as well as the extent and importance of cooperation between buyers and sellers.

The strength of a buyer's power can be measured by the size of the buyer's purchases. When purchasing large quantities of a seller's output, or where the buyer is able to offer market exposure or some form of prestige to the seller, buyers can demand concessions. However, even in cases where buyers are unable to fulfil any of the aforementioned criteria, they may still hold some degree of bargaining power in the following situations (Thompson and Strickland, 2001:91):

- Buyer's switching costs to rival brands or substitutes is low;
- There are limited numbers of buyers or the location of buyers is important to the seller;
- Buyers are well-informed of products, prices and costs;
- Buyers threaten to integrate backwards into the seller's company
- Sellers' products are standardised

Until the emergence of low cost airlines, buyers / customers of airline tickets had no power as premium carriers were charging very high prices for air travel. Low cost subsidiary to Comair, kulula, later entered the market to offer reduced fares. Since 1time has also entered the South African market, customers of airlines now have greater variety to choose from, with many people now finding air travel affordable due to lower fares being made available.

Both 1time and kulula service the lower end of the market. These passengers, many of whom are travelling by air for the first time, are very price sensitive and will switch airlines for even miniscule saving, rather than being loyal to any one airline.

Since low cost carriers operate fewer aircrafts on smaller networks, some travellers using routes at so-called outstations (Port Elizabeth, East London, George and Durban) may find flight times of low cost carriers to be not as convenient as those of SAA or one of the other premium carriers. The airline industry's client force therefore has to consider which of the two is more important: the convenience of price or the convenience of time.

2.2.2.5 Threat of substitute products

Companies in separate industries can often enter into competition if their respective products are suitable substitutes. According to Thompson and Strickland (2001) competitive force is reliant on three factors:

- The availability of reasonably priced substitutes;
- Consumer perceptions of the substitute; and
- Switching costs.

Substitute products such as coach or rail travel do not pose a serious threat to 1time. The airline's fares are sufficiently low to make air travel as affordable as surface travel. In January 2004 the ticket price from Johannesburg to Cape Town on luxury coach, Greyhound, was R400. At the same time 1time was offering their lowest airfare at R371, all inclusive (Rondganger, 2004).

For shorter distances travellers may prefer to drive for the sheer convenience of having a vehicle available in the destination city. Once again, travellers may need to calculate the cost advantage between driving against the time advantage of flying and hiring a vehicle in the destination city.

Porter (1980) attributes successful competitive strategy formulation to critically relating the company to the business environment. The chief characteristic of the company's broader environment is the industry in which it competes. Industry structure impacts on competitiveness and sways strategy choice and implementation. As forces from outside of the industry will affect all companies within the industry, the company's aptitude in dealing with these forces will ultimately determine survival and profitability. In essence, the competitive strategy must take appropriate offensive or defensive action to achieve a defensible position against the five forces. The Five Forces model is intended to aid company strategists in analysing their industry's competitive environment and determining the potential profitability of the industry.

2.2.3 Question 3: What is causing the industry's competitive structure and business environment to change?

As evidenced in the description of the global airline industry in Chapter One, international economic and political factors have had a devastating effect on the travel and airline industries, the effects of which were experienced both internationally and within South Africa. The economic upturn in South Africa (see paragraph 2.2.1) has also greatly impacted upon

travel industry trends locally. In addition, the following environmental factors continue to influence the competitive structure and airline business environment in South Africa.

2.2.3.1 Legislation and regulations

Fiscal policy has switched to a more expansionary stance and inflation and interest rates adjusting to a lower level (DTI, 2005). The DTI 2005 report confirms that the political climate is stable and that business and consumer confidence are on historically high levels. Political and economic transformation since 1994 has been attributed to the growing wealth of the black middle class (Klein, 2006). The growth of the black middle class has been aided by affirmative action legislation which is driven by employment equity targets and skills development regulations. With a population of 42 718 530 in South Africa, 75.2% of which are black (South Africa, 2005), growth of black middle class spending is set to increase exponentially. Various government grants coupled with lower taxation and interest rates have also helped to increase disposable income in low income groups.

Another legislative change impacting on the business environment in which airlines operate is new legislation introduced by the Civil Aviation Authority (CAA) in response to the failure of a spate of airline start ups in South Africa that require new entrants to the South African airline industry to submit financial guarantees prior to start up.

2.2.3.2 Societal Values and lifestyles

Transformation in South Africa from 1994 has seen growth in the black middle income bracket, with 421 000 black adults moving into this bracket over the last year (Klein, 2006) which translates to growth of 30%. These people are in LSM 6-7 with blacks now accounting for approximately one third of South Africa's middle class. The South African Advertising Research Foundation (SAARF) has developed a non-racial measurement to describe the South African market (South African Advertising Research, 2006). It uses All Media Product Survey (AMPS) data to classify people according to living standards. It measures social class or living standards regardless of race, education or income. The LSM (Living Standards Measure) quantifies the ownership of certain durable goods, access to services to yield a composite measure of social class ... The SAARF LSM has become the most widely used marketing research tool in Southern Africa. It divides the population into eight LSM groups, 8 (highest) to 1 (lowest) (Lamb, Hair, McDaniel, Boshoff, Terblanché, 2000).

Black people in South Africa's top income bracket have different spending habits to the middle class, spending on houses, luxury cars and leisure items such as liquor and clothing,



rather than on consumer goods, particularly clothing, household goods and cars like the middle class do (Klein, 2006).

Vuyo Jack, the CEO of Empowerdex, a BEE rating company, warns that money is being spent on consumerism rather than investment, as people do what they have not been able to in the past, such as buying a nice car or enjoying a holiday (Nyanto, 2006). The 2005 DTI report confirms that consumer finances are in good shape as a result of income growth, employment growth, lower interest rates and inflation, lower tax rates, social transfer payments from government and Black Economic Empowerment (BEE) underpinning the spending drive.

2.2.3.3 Commission Cuts & Technology

From the early 2000s airlines have been reducing the commission they pay to travel agents for issuing airline tickets. Currently, most airlines have a zero commission policy in place, forcing travel agents to collect service fees from clients to maintain the survival of their business. This change in the travel industry business model, aided by technological advancements, increased Internet usage and the ease of online bookings, further strengthened by a move from International Air Traffic Association (IATA) authorities to rid the industry of paper air tickets towards paperless e-ticketing (International Air Transport Association, 2006) has seen many travellers avoiding travel agencies and airline reservation call centres to book directly online.

2.2.4 Question 4: Which companies are in the strongest / weakest positions?

Despite the limited number of domestic competitors within the South African context, competition for gaining and retaining market share is fierce. The strongest competitor is undoubtedly the state funded South African Airways.

2.2.4.1 South African Airways

For many years South African Airways (SAA) enjoyed a monopoly in South Africa with new entrants being forced out of the market by the dominant flag carrier. This has been difficult to prove until recently when Nationwide took SAA to the Competition Commission for interim relief for various alleged restrictive practices and sought an order for SAA to:

1. Stop the practice of entering into "preferred carrier" agreements with travel agents whereby incentives, override commissions, rebates and other benefits are granted to the agencies for channelling business to SAA at the exclusion of other airlines

2. Nullify the current agreements in place with travel agents
3. Stop abusing their dominant position by selling fares below market value
4. Cease poaching of Nationwide's employees, particularly their Boeing 737 Captains.

The Competition Act, no. 89 of 1998 (www.compcom.co.za), prohibits a dominant firm to sell goods or services below their marginal or average variable cost (i.e. to engage in predatory pricing), unless the dominant firm can show technological, efficiency or other pro-competitive gains which outweigh the anti-competitive effect caused by the predatory pricing. The act defines a firm as dominant if it has at least 45% of a market, or between 35% but less than 45% or it has less than 35% of that market but has market power. Market power is the power of a firm to control prices, or to exclude competition or to behave in an appreciable extent independently of its competitors, customers or suppliers.

Predatory pricing undertaken by a dominant firm constitutes an exclusionary act, which is also prohibited by the Competition Act. Exclusionary acts are defined as those that impede or prevent a firm entering into, or expanding within a market. Non-dominant firms would be able to price as they please without fear of contravening the predatory pricing provision of the Act.

Price competition amongst competitors is encouraged as it benefits consumers. However, competitive process should occur as a result of market forces not because of some form of illegal arrangement among players in a market.

Controversially, the tribunal ruled in favour of SAA on all claims but one, stating that sufficient evidence could not be provided on any and all of the other claims. The Competition Commission found that SAA has been contravening competition regulations by paying travel agents higher commissions in exchange for SAA ticket sales. As a result, SAA were fined R45 million by the Competition Tribunal for promoting anti-competitive behaviour by imposing high barriers to entry for new entrants in this market and "a long history of failed entry" (www.compcom.co.za). SAA initially decided to appeal the verdict (Crotty, 2005). However, the appeal was met with the Competition Commission considering a cross-appeal which could have meant SAA could be fined with as much as R500 million if their appeal was unsuccessful, more than double the R245 million SAA faced prior to the appeal. By appealing, SAA would have to risk the possibility of the tribunal imposing a larger fine and reconsider the period over which SAA's abuse took place. In addition, it would provide Nationwide with the opportunity to pursue a larger claim should the tribunal's cross-appeal to SAA's appeal be successful. Following the news of a possible cross-appeal, SAA withdrew

its appeal to the tribunal's verdict, stating that they sought to avoid the inconvenience and cost and wished rather to focus on the future of the business and not be hindered by events of the past (Mail & Guardian, 2005).

These fines and penalties did not bode well for the national carrier. In past years SAA has reported substantial financial losses in their annual financial reports, largely due to the following three factors:

1. Exorbitant incentive bonuses being awarded to senior executives despite poor financial performance by the company (Reuters, 2004a). Ordinary staff members did not receive any incentive bonuses, causing bitterness and tension on this front and decreasing staff morale. More recently, media coverage of the precarious exit of former CEO of SAA, Andre Viljoen, sparked debate over the severance package worth R3.6 million as well as his links to the national carrier's exorbitant hedge book (Reuters, 2004a).
2. In an attempt to cover itself against the impact of adverse currency fluctuations on purchases of fuel and new aircraft, SAA embarked on a hedging programme based on the assumption that the Rand would continue falling against other currencies (Mail & Guardian, 2004). This exercise cost the company and the country R15 billion over two years resulting in the airline to go into technical insolvency in 2003 (Reuters, 2004b).
3. SAA twice cancelled a launch party for its new Airbus fleet, incurring cancellation costs of R 11 million in the process.

The most recent highly publicised blunder by SAA was the reported strike by SAA employees in July 2005 following a wage dispute (Faniso, 2005a). Appointed as CEO of SAA in February 2005 Khaya Ngqula did not handle the strike situation well. Ironically, South African retail chain Pick 'n Pay was also the target of strike action simultaneous to SAA. Pick 'n Pay's CEO, Sean Summers, however was quick to take action and not be bullied by the striking masses. Full page Sunday Times apologies for the inconvenience were advertised by Pick n Pay and assured customers that order would return shortly. Within roughly the same amount of time, Pick n Pay and SAA's industrial strike action was resolved and workers resumed their positions. However the response by the different industry's management to the dispute was vastly different. While Pick n Pay's CEO, Sean Summers, was reassuring customers, SAA's CEO was not at the helm. Jakes Gerwel, SAA chairman, severely reprimanded Ngqula's decision to take the weekend off at a luxury resort as the strike commenced (Loxton, 2005). Industry experts estimate that SAA lost R30 million per day during the strike period although Ngqula would not divulge the exact amount of the lost

in revenue (Faniso, 2005a). In a radio interview with Alec Hogg on 24th October 2005, Mr Ngqula Ngqula defended his action claiming that “when you run or lead a big organisation with 11 000 people, you don’t do everything”, saying that he relied on the negotiation team who “knows what has to be done”. He added, “As top management we probably are not close enough to the action because, at the end of the day, I did find out that some of the issues were very simple, they could have been sorted out more easily”. The question is, why wasn’t it sorted out faster? How many more of these fines or other repeated financial losses will be incurred by SAA? How long will government continue to subsidize this parastatal which continues to cost the taxpayer money? One is left to wonder how SAA will justify the unethical acts uncovered by the Competition Commission and the subsequent fine to their parent company, Transnet. Will they continue to play their “blame game” by fingering past CEOs, Coleman Andrew and Andre Viljoen, for these errors? Or will SAA take accountability for the error of their ways and begin to behave as a company with good corporate governance would, rather than relying on their current “open cheque-book” policy?

With regard to low cost airlines, Ngqula admitted in February 2005 (Singh, 2005b) that kulula and 1time were negatively affecting the dominant position SAA once enjoyed domestically. In retaliation, SAA released approximately 100 000 seats with fares below those offered by the low cost carriers. Ngqula promised that more such specials would be released during the 2005 business year. In July 2005, Ngqula again admitted that the low cost carriers, kulula and 1time has reduced SAA’s market share which led to competitive price wars (Business Day, 2005). He added though, that SAA will not introduce its own low cost service, but will compete by offering a full service at a lower cost. Ngqula also commented on a 0,5% decrease in revenue despite a 4.3% increase in passenger volumes.

In October 2005, within three months of stating that SAA will not introduce a low cost service, in a radio interview with Alec Hogg in October (Hogg, 2005) Ngqula stated that SAA are investigating a low cost option. Given that SAA seem to be battling to compete on price with their current operating structure, a low cost division may well be a viable option. To compete with the low cost carriers, the airline will need to start up the low cost division with a separate business model. This may be good news for the national carrier, but could spell disaster for both kulula and 1time who may not be able to compete with the national carrier, which is continuously aided by government when its financial obligations cannot be met. As a state-owned entity, any failure by SAA could ultimately become government’s problem yet again. Can the government justify another bailout of SAA? And will the taxpayer continue to tolerate that SAA gamble with public funds instead of boosting the country’s economy?

South African Airways (SAA) have retaliated against the low fares offered in the South African market by launching many fares which significantly under-cut the fares offered by 1time. SAA had for many years monopolised air travel in South Africa. SAA and its parent parastatal, Transnet, have been struggling financially in recent years. In August 2004, the government replaced the boards of both SAA and Transnet following poor financial performance (Mail and Guardian, 2004a).

A similar situation was evidenced by traditional carriers in the U.S.A. and U.K. Traditional carriers perceived the low-cost model as a niche market, allowing passengers who would not otherwise have had the opportunity to fly, to afford air travel. The traditional carriers perceived these passengers as undesirable and did not wish to lure them to their full service regardless (Franke, 2004).

Studies of the low cost phenomenon (Doganis, 2001) demonstrate that the LCC model is not only able to operate sustainably but also contests the complacency of full service carriers. These studies have shown that LCCs have expanded and that their business models are better designed for adaptiveness during turbulent times.

Attempting to under-cut fares offered by a low cost carrier (www.flysaa.com) one must wonder whether SAA has significantly reduced any of its operating costs. Or is this merely a predatory pricing competitive strategy of SAA to force 1time out of the market? However, if SAA has not reduced any of its operating costs it is in serious danger of again reporting great financial loss. If operating costs have not been seriously slashed, there is no way that SAA can sustain the low fares it has been offering (R296 one way from Johannesburg to East London, while 1time's lowest fare was R429 one way). Due to the business model used by 1time, their operating costs are significantly lower than SAA's. If SAA were to privatise, the government would no longer be in a position to rescue SAA every time their finances are in the red due to poor strategic planning or poor decision making. Will the South African public begin to protest when public funds, collected from South African tax payers, are continuously splurged on the national carrier as has been the case over the last few years?

Although 1time has been successful in creating market share, the airline has also benefited from gaining business travellers through active recruitment by 1time's commercial division who have met with corporate companies to explain the benefits of utilising their low cost service. The market power enjoyed by SAA through its frequent flier rewards programme, Voyager, has for many years attracted individuals and businesses alike. However, when comparing the financial implications of using either of the two airlines, it becomes apparent that flying on 1time's low cost service makes financial sense. Travellers need 20 000

Voyager miles in order to claim one free redemption domestic ticket. The average SAA fare for the East London to Johannesburg route has been approximately R2 000 one way. A passenger would need to purchase ten tickets at a total cost of R20 000 in order to qualify for one free redemption ticket. The average 1time fare on the same route is approximately R400 one way, costing R4 000 for ten tickets. A simple calculation demonstrates that the SAA traveller will effectively have spent R 18 000 for their free ticket, compared to expenditure on 1time of R4 400.00 for the 11th ticket purchased. Since employees whose airline tickets have been purchased by their companies have for years enjoyed the use of their free "Voyager miles" for personal use, they are reluctant to abandon flying SAA. Financial directors of companies are however, beginning to understand the potential cost savings of using LCCs. Progress is slow, however, as in some instances it is the decision-makers themselves who are caught by the stranglehold of the Voyager programme.

2.2.4.2 BA Comair / Kulula.com

In 1990 British Airways' subsidiary, Comair, started up as a full service carrier in South Africa and later launched a low cost arm, Kulula.com in 2001. Kulula.com was the first low cost carrier to be introduced in South Africa. Comair does not separate the financial statements of the low cost and full service segments and as such it is difficult to determine the impact of Kulula.com. With kulula being affiliated to Comair it is often the case that if the low cost flights are not filled to a profitable capacity, the low cost flights are cancelled and passengers transported on the full service Comair flights which are already scheduled to travel. These processes saves kulula revenue as they do not need to burn fuel nor incur any of the other expenses associated with an under-capacity flight. For the passengers who were inconvenienced by the cancelled kulula flight and possibly experience a delay in waiting for the "replacement" Comair scheduled flight, the passengers in most cases feel rewarded for the inconvenience as they are "upgraded" to travel on a full service carrier (Comair). Kulula has autonomy in the areas of marketing and branding but relies heavily on the resources, employees and processes of its parent company. Operating under such a parent may however limit kulula's strategic flexibility.

Kulula entered the South African market and branded itself as a low cost carrier. At the time, kulula was perhaps more a "lower" cost airline and not truly the lowest cost. Prior to 1time's inception, kulula's fares were approximately forty percent lower than those offered by SAA (Singh, 2003b). 1time entered the market offering fares as much as sixty percent lower than those offered by SAA at the time. Domestic fare wars ensued.

Comair is in the fortunate situation of being able to differentiate their strategies within one company. Comair continues to market and sell a full service operation at related fares, while their subsidiary, kulula, targets the low cost end of the market. Not wishing to release any of the market share kulula has gained, it was rumoured at the outset of 1time's start-up, that kulula had budgeted approximately R100 million to shut down the new opposition. Although the strategies of the two LCCs are similar, kulula operates aircraft which were purchased at prices of US\$ 200 million, while 1time was able to secure aircraft at much reduced prices. Due to the excess amount of airplanes following the events of 9/11 and subsequent demise of many airlines, aircraft could be purchased at approximately US\$ 18 million. Competition between the two South African LCCs is evident in the routes and flight times undertaken. When one of the LCCs starts a new route, it is followed closely (or sometimes overtaken) by the competitor. An example of this is when 1time launched the Johannesburg – East London route. Within a matter of three months kulula commenced operations on the same route. A more striking example is the planned 1time service from Johannesburg - Lusaka. Within the airline industry, confidentiality can only be kept within the company. Once landing slots are filed for an airline, the information becomes public knowledge. Before 1time had even commenced operating this route (and still has not), kulula have already commenced ticket sales for the very same destination. In this industry, rumours are strong (and often justified) and competition is fierce.

Kulula has branded the airline well. Their marketing team have designed clever, humorous advertisements and catchy slogans. Their marketing strategy has possibly been the biggest contributor to kulula's success. Brand awareness was developed from the outset. 1time's initial marketing strategy was, in sharp contrast, quite dismal with much of the flying public not even being aware of 1time's existence.

With most of 1time's senior management, including the Chief Executive Officer (CEO), having previously been employed by Comair and instrumental in the start up of the kulula brand, trust levels are very low. Any form of alliance which could be beneficial to both airlines by granting some routes to the one airline and other routes to the competitor, will not be entertained. Instead, the onslaught is head-on. Price wars are regular and both parties are vigilant of their competitor's next move.

Kulula is direct competition to 1time as the two airlines are currently the only low cost carriers in South Africa.

2.2.4.3 Nationwide Airlines

Entering service for both domestic and international routes, Nationwide Air Charter (Pty) Ltd was established in 1991. Following fleet expansion and the acquisition of Care Airlines, a scheduled domestic airline operating between Johannesburg and Margate, the airline was renamed Nationwide Airlines in 1995 and operated its first flight under this name on 5th December 1995 headed by Vernon Bricknell, the founder, CEO and Managing Director (MD) of the airline. The airline increased the routes offered domestically and entered into strategic code share agreements with international carriers. According to Nationwide's website, by June 1999, Nationwide had increased passenger load factors by 540% in a period of one year. Nationwide is the only South African domestic carrier that is entirely self-sufficient in terms of ground handling, training, aircraft maintenance, operations as well as all sales and marketing functions. By 2001 the airline launched a service to include ground (i.e. car hire), air and hotel accommodation by formulating a subsidiary company named Nationwide Leisure (www.flynationwide.co.za).

Nationwide has "flown under the radar" so to speak, avoiding controversy or launching fares to draw attention to the airline until recently. The most notable confrontation by Bricknell was by taking on South African Airways' efforts to exclude Nationwide by reporting to the Competition Commission in October 2000. The application of Nationwide Airlines (Pty) Ltd versus South African Airways (Pty) Ltd (92/IR/Oct 00), claimed for interim relief in terms of section 59 of the Competition Commission Act. Nationwide has received certification from the Competition Tribunal to allow the airline to pursue a civil court claim for damages from SAA. Roger Whittle, Executive Manager of Nationwide said in late 2005, that Nationwide will proceed with a case against SAA as soon as the formality of the issuing of the certificate is concluded. He indicated that the claim will be approximately R200 million (Lewitton, 2006). It is rumoured that Comair will pursue a similar claim for R300 million.

In an interview in late 2003, the then Commercial Executive of Nationwide, Chris Hoare, said that the low cost model would not be sustainable in South Africa because of the airport monopoly and the small market (Singh, 2003c). Hoare added that market saturation in South Africa is the reason for Nationwide's decision to operate on the London route as there is no room for domestic growth.

The airline has been established as a medium cost full service carrier. The airline has been successful domestically and on its Johannesburg to London, Gatwick (and return) routes.

2.2.4.4 Summary

All of 1time's competitors are currently comparatively stronger in terms of the more extensive networks they offer, public awareness, experience and customer brand loyalty as well as some loyalty rewards programmes.

Apart from kulula, all other scheduled airlines in South African attract the Full Service Carrier (FSC) clientele rather than low cost travellers. Prior to the arrival of 1time, it appears the FSCs did not regard kulula (or LCCs in general) as a threat. However, the FSCs have substantially lowered their fares since the advent of 1time's inception. Of the South African FSCs, SAA is in the best position to lower their costs, and are the greatest threat to 1time's survival, as they have the backing of state funding, whereas 1time is privately owned.

2.2.5 Question 5: What strategic moves are rivals likely to make next?

1time, together with kulula, have managed to not only grow the existing market by offering a low cost service, but have created a new market for those who could not previously afford the luxury of air travel. 1time's launch forced prices down even further than had been experienced when kulula was the only low cost airline in South Africa. With all airlines now compelled to reduce their margins to remain competitive, 1time has shaken up the industry. Price wars were sparked and rivalry intensified, yet 1time has prevailed throughout the onslaught.

If SAA were to introduce their threatened low cost subsidiary, it is uncertain whether 1time would survive an ongoing fare war. 1time will need to remain competitive or passengers will opt for alternative carriers.

Brandenburger and Nalebuff (1995), in their analogy of relating business operations to playing a game, argue that business is not about winning and losing, nor about how well one plays the game, but rather about ensuring that the right game is being played. "The primary insight of game theory is the importance of focusing on others namely, allocentrism" (Brandenburger and Nalebuff, 1995:58). The theory advocates the importance and benefits of formulating "win-win" strategies over offensive or defensive strategies.

Brandenburger and Nalebuff identify two types of games: "rule-based" games and "freewheeling" games. Rule-based games are characterised as having rules from contracts or trade agreements where "to every action there is a reaction" (*ibid.*). The theory proposes that players should use foresight to predict other players' actions and reactions in order to shape one's own move. In freewheeling games players need to assess the value added by

other players. Players cannot extract more than the value they have added. Accordingly, both games focus on allocentrism rather than focussing simply on one's own game. A successful business will implement a strategy that moulds the game they play.

The advantages of formulating win-win strategies are as follows:

1. Since the technique of implementing mutually beneficial strategies has not been widely adopted, the prospect of exploiting opportunities is significant.
2. Due to the fact that they do not have to relinquish their position, other companies are more amenable to win-win strategies thereby making these strategies easier to implement.
3. Win-win strategies are more sustainable as they do not invoke retaliation from other players.
4. Rather than being destructive, replication of win-win strategies by other players is advantageous.

Business focuses on creating and maintaining value. The Value Net (Figure 3) is a strategic tool which describes all the players in the game of business and the interdependence among them.

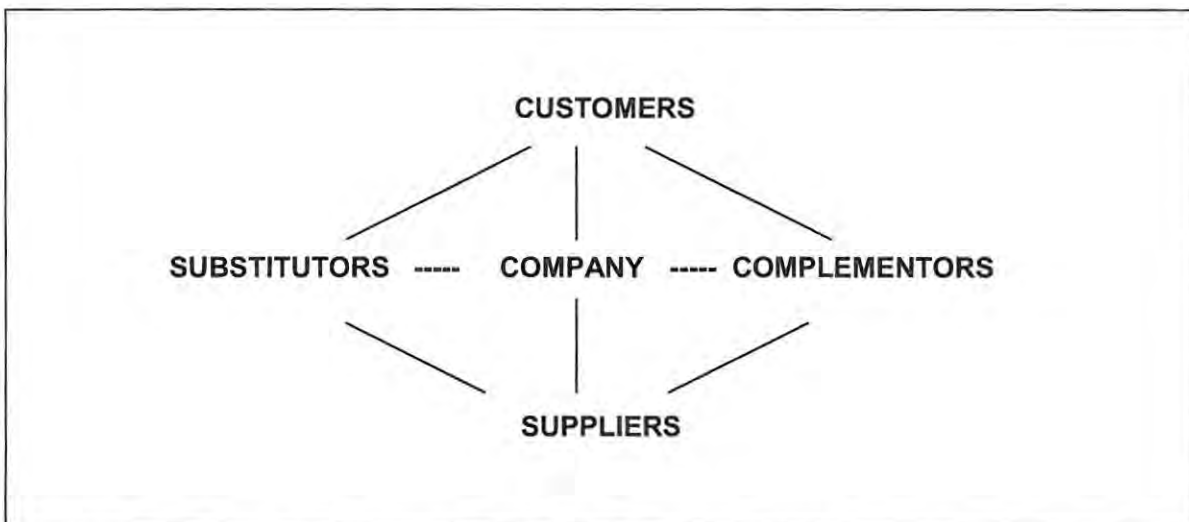


Figure 3 Value Net (Brandenburger and Nalebuff, 1995: 60)

The theory explains that suppliers transact with the company and the company transacts with the customers. "Transacting" involves money flowing from customers to the company and from the company to the suppliers.

In contrast, the company "interacts" with substitutors and complementors. In the literature the term "substitutors" replaces the customary term "competitors" to guard against the negative connotation that competition implies in business. As the name suggests, substitutors are equivalent players from whom customers may purchase products or suppliers sell supplies to. Within the context of the South African airline industry, 1time and kulula are substitutors to consumers, whereas 1time and a liquor store are substitutors to alcoholic beverage suppliers. Both 1time and a liquor store purchase alcohol from the supplier companies for resale.

Complementors are the counterpart of substitutors and from whom customers buy complementary products and suppliers sell complementary supplies. An example from the customer's perspective is car hire. 1time and Tempest Car Hire, 1time's preferred car rental partner, though sometimes considered to be substitutors with respect to consumers who can choose to either fly or rent a care, became complementors when they implemented their preferred agreement. Tempest offer discounted rental rates to 1time passengers on arrival at their destination. In turn, 1time allows the car rental company to advertise their products in the onboard magazine as well as on 1time's frequently accessed website. The purpose of the Value Net is to encourage collaboration between business players by seeking out opportunities for participation and a pooling of resources.

A deep understanding of the harmony between the vertical and horizontal axes of the value net can assist businesses in developing new strategies to change the game, or create innovative methods of implementing existing strategies.

A Value Net representing all the interdependencies within the industry guides companies in planning to reshape their game. Game Theory suggests that there are five fundamentals: Players, Added Values, Rules, Tactics and Scope. These are known as the acronym, PARTS. The theory suggests that one or more of these elements must be changed in order to change the game.

2.2.5.1 Players

Players are foremost. Players are constituted as customers, suppliers, substitutors and complementors. As none of the players are fixed it is advised to change the players of the game, including the very company being analysed. In the case of 1time, the airline can for example discontinue using one fuel company over another, or introduce an innovative distribution channel to change the dynamics of their sales system.

2.2.5.2 Added Values

This implies the value the player adds to the game. The company can find methods of increasing the value they add, as well as to reduce the value added by other players. To continue with the thread of distribution, the airline could for example devise new technologically aided, "self-checking in" facilities to expedite the process and shorten flight turnaround times. Such an advance could be perceived as a value-added benefit to 1time passengers as well as reduce the value added by the airline's rivals.

2.2.5.3 Rules

Rules shape the construction of the game. Although there are no set rules in business, they can be evidenced as contracts, legalities or customs. Effective players will adapt their game in order to benefit from the rules, influence new acceptable rules, or change existing rules. 1time has already proven successful in aiding change in the South African context by being first to offer all-inclusive fares as opposed to advertising base fares excluding airport taxes as had previously been the case.

2.2.5.4 Tactics

These are described as careful measures to change the game. Tactics can be used to clarify misconceptions or to retain ambiguity. By introducing fares much lower than were offered by rivals, 1time (and kulula) were instrumental in creating a new market of first time travellers. The greater South African public who had been forced to pay exorbitant air fares prior to the launch of the low cost airlines, have become exasperated with the high fares and poor service of, in particular, South African Airways (The Star, 2006b). The move towards low cost air travel in South Africa seems to have educated the flying public of the inadequacies they have become accustomed to.

2.2.5.5 Scope

Scope is defined as the "boundaries" of the game. Players may grow or reduce these boundaries. An example of expanding the boundaries of the airline industry is kulula's recent announcement that they will be introducing a kulula credit card. The card is linked to First National Bank's VISA brand as well as to a new rewards programme for frequent flyers on kulula (Sunday Times, 2006). Banking facilities has not yet been introduced by other South African airline incumbents.

Brandenburger and Nalebuff (1995) caution about the pitfalls of "changing the game" and make the following suggestions:

- Acknowledge that you do not have to accept the current game. It's more rewarding to be a "game maker than a game taker" (Brandenburger and Nalebuff, 1995:70).
- Realising that changing the game is not necessarily to the detriment of other players encourages open-mindedness to new win-win opportunities. The theory describes "coopetition" as cooperative and competitive ways to change the game and encourages a "coopetition mindset" (Brandenburger and Nalebuff, 1995:59).
- Do not believe that you have to find something to do that others cannot. When a company has changed the game, remember that new actions may well be imitated.
- Try to see the whole game. What cannot be seen cannot be changed. Make use of the Value Net to overcome this obstacle.
- Think methodically about changing the game by utilising PARTS as a theoretical lever and becoming allocentric.
- Changing the game is an ongoing process.

The Value Net as described by Brandenburger and Nalebuff (1995) suggests that sometimes the most valuable service a company can offer is creating competition. The theory states that people in the takeover game have long understood the art of getting paid to play, and so they do not give in for free. For example, at this stage, a potential strategic move by a rival may be to offer to purchase 1time. This may ease the fare wars that have been raging and alleviate the intensity at which the South African airlines compete. A move of this nature is possible from either SAA or kulula. Nationwide is a full service carrier and it would take considerable restructuring for the separate and vastly different business models, processes and systems to merge. Comair is also a full service carrier and already operates their low cost subsidiary, kulula. Should this be the strategic move from the Comair / kulula alliance, kulula could merge the two low cost airlines with relative ease given that the airline have a similar business model. However, given the intensity of the relationship which exists between the two airlines, restructuring of human resources will be critical to their future success. Kulula have a strong brand and an acquisition of 1time would add to expansion of destinations and frequency of flights, thereby increasing passenger volumes and return to shareholders. Like kulula, SAA is in an ideal situation to purchase 1time. SAA would then simply need to rebrand the 1time's product as SAA's low cost subsidiary. The advantage to SAA is that the low cost airline is already in operation with the necessary infrastructure, staff requirements and low cost base. As such, SAA can avoid having to formulate a new start up

airline from scratch. SAA could possibly further reduce costs as it too wholly owns an aircraft maintenance company.

For the rival airlines, a complete buyout would likely be the most lucrative alternative to end the price wars (albeit to the detriment of consumers who would no longer have the airline options they currently enjoy and airfares would be inclined to revert to "pre-1time" highs). However, a strategic alliance may also be considered. The only likely rival to successfully manage a partnership agreement with 1time is kulula, due to a low cost model already being in place. Again however, due to the intensity of rivalry between these two airlines, careful restructuring would be required should an agreement of this nature ever transpire.

2.2.5.6 Similarity and parallels between Five Forces Analysis and the Value Net

Both theories recognise a link between the forces or players influencing and participating in the competitive environment. Suppliers, Substitutes and Buyers / Customers are common to both theories. The Five Forces Analysis concentrates on the intensity of rivalry among competitors, while the Value Net focuses on the company being evaluated. The Five Forces Model is designed to aid management in gaining an in-depth understanding of the industry's competitive environment in order to devise a successful strategy. The purpose of the strategy is to outsmart and outperform competitors in order to reduce rivals' market positions and create above average returns for themselves. The Value Net introduces a framework for considering win-win and win-lose opportunities with other industry players. The Value Net proposes that cooperation is a more valuable business practice as win-lose strategies often have a boomerang effect.

I will seek evidence of Game Theory during interviews with 1time Airline to ascertain whether strategic alliances with industry players other than rivals are pursued.

2.2.6 Question 6: What are the key factors for competitive success?

Nohria, Joyce and Roberson (2003) developed the "4+2 formula for business success" after extensive studies of over two hundred management practices in 160 companies over a period of 10 years. The researchers found that of the successful companies which they termed "winning" companies, each employed four fundamental business actions: strategy, execution, culture and structure. It was also found that to complement the four fundamentals, two out of the following four secondary practices should be applied: Talent, Innovation, Leadership, and Mergers and Acquisitions. Examination of each of the four primary management practices follows.

2.2.6.1 Strategy

The research of Nohria *et al.* (2003) does not prescribe which strategy is best to select. Rather it suggests that whichever strategic options are opted for should be clear and clearly communicated to all consumers, employees, shareholders and other stakeholders. Once the unique selling point has been identified, critical analysis of the company's target market is required in order to evaluate the company's core capabilities. Expansion plans should be carefully assessed to ensure that company growth is clearly defined within the strategy. Entering a business arena dissimilar from the core competencies and core business can create "strategic drift" (Nohria et al, 2003:45).

2.2.6.2 Execution

Smooth, faultless execution should be formulated and consistently applied. Continued, rigorous attention to the business operations is fundamental. Winning companies recognise where their operational strengths lie and concentrate on developing these to build and enhance their core competencies. Critical assessment of their product and service offering is also ongoing. The importance of meeting the expectations of their consumers is vital for business success.

2.2.6.3 Culture

Although regarded in some institutions as a "soft subject", Nohria et al (2003:47) suggest that creating and maintaining a performance-based culture is a fundamental business practice. Emphasis is also placed on ethical processes and practices. The organisational culture is underpinned by a shared accountability of business success by the team's contribution and is not solely the responsibility of management. Furthermore, winning companies do not simply measure their success against their rivals, but also against opportunities outside of their industry for continuous improvement. Due to the performance-based culture it is apparent that remuneration throughout the company is closely linked to performance targets and specific goals. To augment financial benefits, employee accomplishments are identified and top achievers are afforded opportunities for development and enhancement of their talents. Company values of winning companies are expressly described and acted on. Values include matters such as exceptional customer service, creating value for shareholders and corporate social investment issues.

2.2.6.4 Structure

Winning companies cut excessive bureaucratic layers of management and unnecessary boundaries, rules and regulations. The logic behind this is to create a flat organisational structure for simplified processes and flexibility. Employees are empowered with available, relevant information in order to allow them freedom to be innovative and be creative. Maintaining a structure of this nature can be arduous, particularly when organisational size increases. Nohria *et al.* attest to this by noting that once all impeding systems have been eliminated, bureaucracy often recurs. Careful attention and rigorous scrutiny of processes is required to nurture and retain a flexible, flat organisational structure.

The theory suggests that the four primary management practices detailed above are imperative. To support these fundamentals, two out of four secondary practices are employed by winning companies. The research claims that it is irrelevant which two of the four secondary practices are selected and suggests that there is no apparent benefit of exceeding the "4+2" by incorporating and excelling at all four secondary practices.

2.2.6.5 Talent

Winning companies demonstrate an inherent ability to attract and retain talented employees. Furthermore, they display a keen interest in developing and promoting top achievers. Winning companies nurture and promote performers from within the company and employ talent from outside of the organisation.

2.2.6.6 Innovation

Innovation harnessed by winning companies is not merely product improvement, but rather industry transforming advancements. These companies do not wait until their current products reach maturity in the product life cycle but have a clear objective to introduce revolutionary innovations. Nohria, *et al.* (2003:51) acknowledge the difficulties of practicing innovation and reveal that only a "bare majority" of their winning companies excelled in this area.

2.2.6.7 Leadership

Leadership skills that are common to CEOs of winning companies include:

- the ability to build relationships with people at all levels of the organisation, and
- the ability to identify potential opportunities or difficulties timeously.

The importance of the board of directors should not be underestimated. A good board comprises individuals who have clear insight into the business and are dedicated to ensuring the company's sustainable success.

2.2.6.8 Mergers and Partnerships

The "4+2 Formula" (Nohria et al, 2003) claims that only a limited number of winning companies are able to successfully pursue mergers and partnerships. These companies spend considerable amounts of financial capital and invest skilled human resources to create a competent, proficient team for investigating acquisition and partnership transactions. They are adept at selecting suitable partners and have processes for smooth and rapid integration.

The 4+2 formula for business success is an effective management tool as it provides a diagnostic framework which highlights areas in which management need to focus their attention as well as practices which can be discarded.

I will establish to what extent the 4+2 formula is applied at 1time Airline through interviews with management. This will be discussed in Chapter 4: Findings & Discussion.

2.2.7 Question 7: Is the industry attractive and what are the prospects for above-average profitability?

Michael Porter (1987) and Hitt, Ireland and Hoskisson (2003) describe an attractive industry as having a high average return on investment, high barriers to entry, modest bargaining power by suppliers and buyers, few substitute products or services and where rivalry among competitors is stable. An unattractive industry is described by Porter (1987) as having structural flaws, many substitutes, powerful and price-sensitive buyers and excessive rivalry as a result of high fixed costs and many competitors, some of whom are state supported. Hitt *et al.* (2003) support this statement and include low barriers to entry in their distinction of an unattractive industry. Taking the South African context into consideration and according to Porter's definition, the South African airline industry is categorised as an unattractive industry. The motivation of the entrepreneurs who started up 1time Airline and the market conditions influencing their decision will be detailed in Chapters 4's Findings & Discussion.

In the past there have been cheaper substitutes to air travel such as private vehicle or coach services. Consumers are price-sensitive and often opted for cheaper travel alternatives, which until now, has been by road. Fixed costs within airlines are significant with aircraft being highly priced and fuel prices rising. Porter's industry definition of 1987 claims that if the industry does not offer such returns, the company must be able to restructure the industry or gain a sustainable competitive advantage that leads to returns well above the industry average. Therefore, entry into an industry need not be attractive. 1time has indeed helped to reshape and restructure the airline industry by offering lower air fares than have even been available to the South African public. An organisation may in fact benefit if entering before the industry reaches its full potential. 1time has entered the market at an opportune time, successfully entering the airline industry by overcoming the high barriers to entry, formulating strategic alliances with buyers and sparking intense rivalry by initiating price wars. Some economists have been of the opinion that aviation is a stalemate industry that does not allow its players to substantially create value (Travel Industry Review, 2005a) (**TIR, October 2005a**). In the South African context it is nevertheless apparent that innovation and restructuring has well transformed the industry's structures. However, as argued by Ames and Hlavecsek (1990), long term market success is mainly attributable to being a lower cost supplier than all others providing equivalent products or services. Once distinction fades, being a low cost carrier will be merely one of the means of achieving sustainable competitive advantage. 1time Airline's competitive advantage and how they ensure the airline's sustainability will also be dealt with in Chapters 4, Findings & Discussion.

2.3 Generic strategies

Once a company has undertaken an Industry and Competitor Analysis in terms of the "seven questions" it might wish to explore Michael Porter's generic strategies to identify an effective response to the competitive forces it faces.

Hitt et al (2003:112) defines strategy as "an integrated and coordinated set of commitments and actions designed to exploit core competencies and gain a competitive advantage". This definition implies determining what the product or service is that the firm wishes to offer, how they will go about doing so, and how they will implement the distribution thereof. Once this is established, the decision then becomes whether the company is going to perform different activities or perform activities differently.

Companies across the globe are innovative and original in contriving successful competitive strategies. There are however usually some elements of competitive strategy which remain common. These include two variables: whether the company is targeting a broad or narrow

market segment and whether the company delivers a differentiated or standardised, often cheaper, products or services.

Flowing from the above, Porter has identified five generic business-level strategies which companies use to “create a defensible position in an industry, to cope successfully with the five competitive forces and thereby yield a superior return on investment for the firm” (Porter, 1980:34). In 1980 Porter suggested that three consistent generic strategies (which can be used singly or in combination) can be identified:

1. Overall cost leadership
2. Differentiation
3. Focus

Porter (1980) confirmed that firms can sometimes pursue more than one of the above mentioned strategies as its dominant target, but warned that this is seldom possible as implementing any of the generic strategies commands total commitment to be successful rather than diluting organisational arrangements on more than one target. Porter (1980) further stated that generic strategies are proposals to outperform competitors in the industry.

Porter's model has been adapted and can now be illustrated as the Five Generic Competitive Strategies, represented as a matrix in Figure 4 on page 45.

2.3.1 Overall Cost Leadership

Using this strategy a company sets out to become the low cost provider in a specific industry. To achieve this it must find and exploit all sources of cost advantage. Low cost providers generally sell a standard product and place considerable emphasis on reaping scale or absolute cost advantages from all sources (Porter, 2004). In simple terms, low prices cannot be sustained unless a company maximizes its operational efficiencies by pursuing a rigorous and relentless policy of cutting costs. Some of the most vigorous competitive rivalry occurs in the low price segment of the market. Porter (1998) argues that low cost firms generally sell a standard or no frills product or service and that such a firm will generally be an above-average performer in its industry, provided that it can command prices on or about the industry average.

Ames and Hlavacek (1990) suggest that no company in any industry will be successful in the long term unless it can offer a lower cost than its rivals. They claim that as product differentiation dwindles, price becomes increasingly important in consumer purchasing decisions. They argue that to be effective, continuous productivity improvement is required to keep costs down in order to maintain margins should pressures become more vigorous. In

essence, this means that should any of 1time's costs increase (e.g. fuel costs) the airline will need to be more productive in terms of fleet utilisation which, in turn, will also increase staff productivity. In so doing, 1time may be able to maintain the ticket price charged to passengers by filling planes on passenger volumes at a minimal profit (i.e. by concentrating on load factors rather than on revenue per passenger).

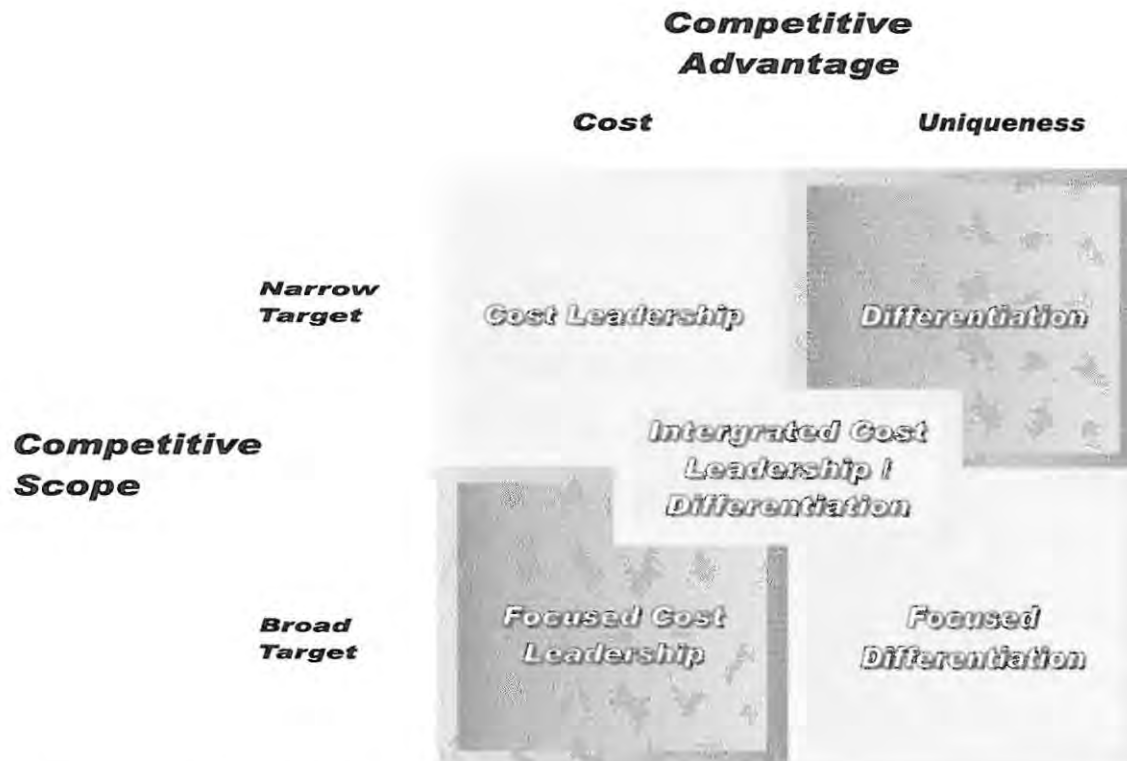


Figure 4 The Five Generic Competitive Strategies (Thompson & Strickland, 2003: 151. Adapted from Porter, 1980)

2.3.2 Differentiation

This generic strategy is achieved by differentiating the firm's product or service offering by creating what is considered unique industry-wide. Such dimensions can, for example, include design or brand image, customer service, features and technology. Porter (1980) cautions that while the differentiation strategy does not entitle firms to ignore costs, cost is not the primary strategic target. When feasible differentiation is attained, above average returns are earned by the company's defensive competitive strategy. Margins can be increased as consumers are not as sensitive to price but are brand loyal. Within the airline industry, differentiation is used by full service carriers. The travellers in this case feel it is justified to pay more for an airline service whereby pre-seating assignments are made to their request, hot meals are served onboard at no additional cost and service levels are consistently high.

2.3.3 Focus

Unlike the low cost and differentiation strategies which concentrate on achieving their objectives industry-wide, the focus strategy is aimed at serving a specific target market. Companies that practise this generic strategy do so believing that they will better serve their narrow strategic target than their rivals who compete within a broader context. The firm achieves either differentiation from better serving their target market, or lower costs in serving this target, or both. Although the firm will not achieve differentiation or lower costs to serve the broader market, it manages to achieve one or both of these positions within the narrow target market. A charter airline is a good example of a company that implements a Focus generic strategy.

2.3.4 Linking the Five Forces Model to generic strategies

Once all elements of the Five Forces Model have been identified and each competitive force's influence on the company has been established, the company is in an ideal position to select the Generic Strategy which is strategically aligned to its business objectives. The Generic Strategies were developed as defences against the Five Forces.

Drawing on the Five Forces Analysis theory, Figure 5 uses the airline industry as an example.

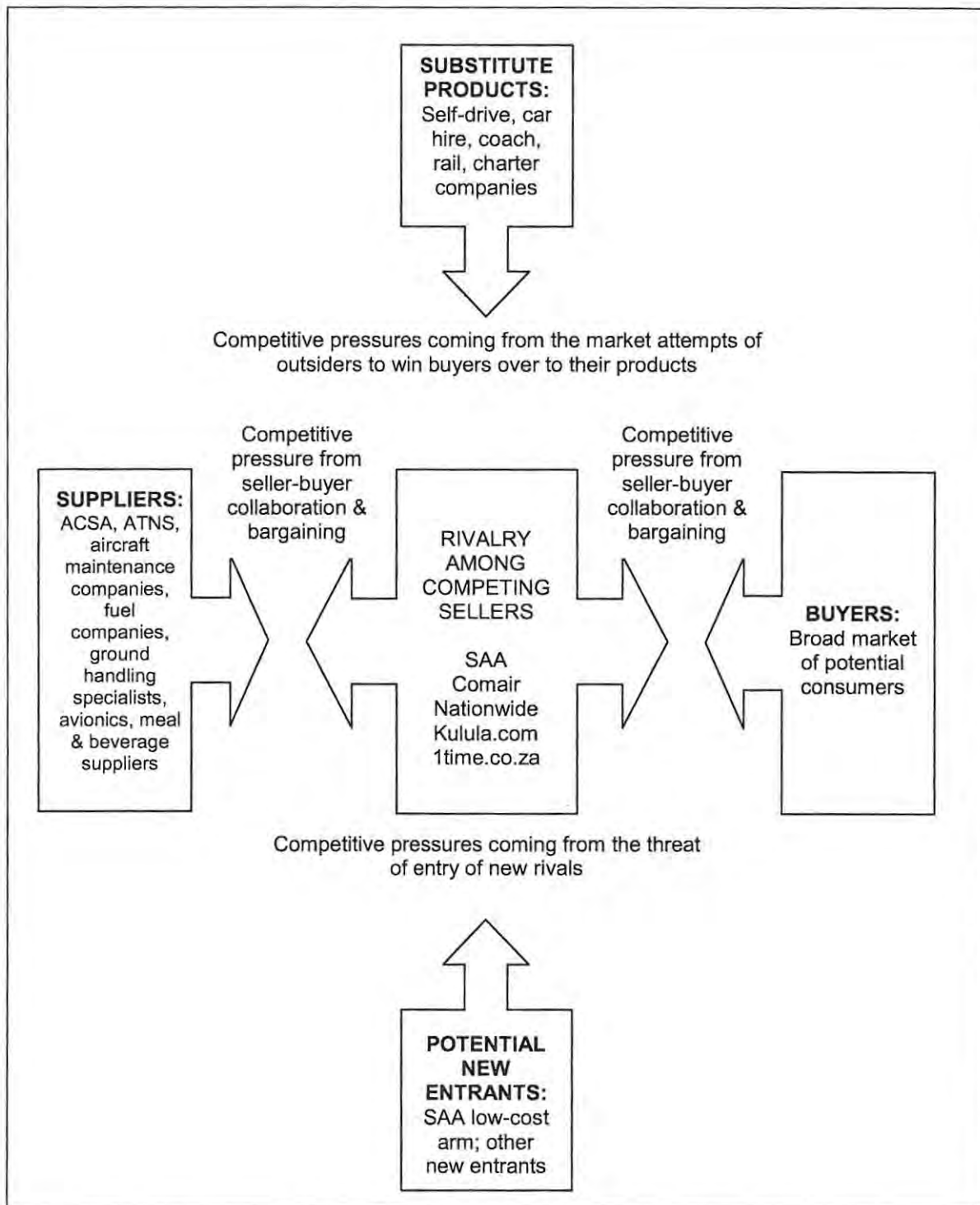


Figure 5 Five Forces Analysis of the South African Airline Industry

2.4 Summary

Cost leadership is chosen by companies wishing to compete primarily on price, while differentiation is chosen as a strategic position by companies who are able to provide differentiated products or services in order to command a premium price. Both aforementioned strategies are used for attracting an unlimited market. Companies targeting niche markets select the focus position. The strategy chosen by each company should strengthen their ability to establish and attain a competitive advantage within the company's market segment target group.

When determining which strategy is best aligned to a company's goals, cognisance should be given to the opportunities and threats in the company's external environment. Attention should also be paid to any potential advantages in unique resources, capabilities and core competencies enjoyed by the company. Therefore, it is critical that a company selects an appropriate generic strategy to exploit opportunities, guard against threats and optimise competencies.

2.5 Conclusion

Despite the dynamics of the airline industry and the evolving low cost phenomenon which is a recent addition within the South African context, 1time managed to overcome the high barriers to entry. This chapter has outlined various theoretical insights which will be used to evaluate and analyse the strategies that 1time applied and investigate the manner and reasons for the formulation and execution of these strategies.

The common thread linking Generic Strategies and the Five Forces model is a critical analysis of the environment in which the organisation operates. Industry and competitive analysis encompasses a broader perspective by considering the company's macro-environment.

The 4+2 Formula encompasses vital ingredients for successful, winning companies. The study of 1time will use this theory as a framework for reporting on the research.

How effective is game theory in practice and has it been considered within the 1time game plan? It will be noteworthy to explore the extent to which game theory is being applied in the highly competitive South African airline industry. 1time's maverick status gained by being an independent airline with non-membership to airline associations and non-participation in airline alliances may make it vulnerable to attack by competitors.

All airlines ultimately seek to lower costs and maximize economies of scale. Large capital and financial investments in the form of aircraft and maintenance facilities are required in order to maximize the economies of scale. As a result of these high fixed costs, high capacity utilisation is imperative.

This chapter serves to shape the Research Methodology chapter. The research findings will be assessed against the literature reviewed.

Chapter 3 Research Methodology

3.1 Introduction

By collecting and assimilating relevant information it will be apparent how the competitive strategies implemented by 1time Airline evolved and resulted in their successful entry into the South African aviation industry. Research interviews were completed in November 2005 and final research material collected until January 2006.

The research goals are to describe:

1. why the airline was formed, and
2. how and why particular competitive strategies were implemented.

3.2 Methodology

This research is based on an ontology that holds that *reality* and *the truth* only exists through the constructs of the researcher. The research will seek to achieve the research goals in a constructivist paradigm. This implies that the construction of the research will be based on realities which will be "multiple, intangible socially and experientially based, local and specific in nature and dependent for their form and content on the individual persons or groups holding the constructions" (Denzin and Lincoln, 1994:110-111). As a result of preconceived perceptions, realities on which the constructions are based may be amended as the constructor becomes more informed.

For the sake of clarity, the term "paradigm" is defined by Hussey and Hussey (1997:52) as "the progress of scientific practice based on people's philosophies and assumptions about the world and the nature of knowledge". Denzin and Lincoln (1994:105) argue that a paradigm is "the basic set of belief system or worldview that guides the investigator, not only in choices of method but in ontologically and epistemologically fundamental ways".

There has been great public interest in the growing phenomenon of low cost airlines globally. The dynamics of the South African airline industry sees parastatal SAA exploiting their dominant position despite repeated incidences of poor management and excessive financial losses, coupled with the success of low cost airlines. The purpose of the research is to create a "thick understanding" (Winegardner, 2004:6) of the competitive strategies implemented by the low cost airline, 1time, to achieve successful market entry. A thick understanding requires that various sources of evidence are used to set the scene of the "phenomenal situation" (Winegardner, 2004:6). A case study methodology was chosen as it is recommended for research purposes when examining a single instance of a phenomenon

of interest (Hussey and Hussey, 1997). Yin (2003:13) defines a case study as an empirical inquiry that “investigates a contemporary phenomenon within its real-life context ... especially when the boundaries between phenomenon and context are not clearly evident”.

Yin (1994) identifies the following characteristics of case study research:

- the research aims not only to explore certain phenomenon but to understand them within a particular context;
- the research does not commence with a set of questions and notions about the limits within which the study will take place; and
- the research uses multiple methods for collecting data which may be both qualitative and quantitative.

This research will be through a descriptive case study as the research questions of mostly “how” and “why” will be addressed and the research is directed at contemporary events (Yin, 2003). Scapens' (1990) definition confirms that the objective of a descriptive case study should be confined to recounting present practice, while Winegardner (2004:5-6) suggests that a case study is considered descriptive when “the researcher looks for constructs to organise the data and relate it to other research findings and for themes which identify the salient features of a case”.

In accordance with Yin's guidelines for case study data collection, the following three principles will be observed to increase reliability of the information collected:

1. Multiple sources of evidence will be used to reap the benefits of triangulation.
2. A chain of evidence will be maintained.
3. A case study data base will be created.

Trochim (2002) stated that qualitative validity can be judged on the criteria of “credibility, transferability, dependability and confirmability” while similarly, Yin (2003: 33) argues that research design is judged according to logical tests to ensure the presence of “trustworthiness, credibility, confirmability and data dependability”.

The following requirements applicable to the research method used (Yin, 1994) and their application to the research will be discussed.

3.2.1 Rigour

Great emphasis is placed on quality and the depth of the data. The term “rich” is widely used to describe the significance of detail and the hidden meanings found in the phenomenon being researched (Hussey and Hussey, 1997).

3.2.2 Data integrity

Data integrity is a characteristic of research which concerns error and bias. Within this study, the researcher acknowledges bias and personal values possibly affecting data interpretation (Adler and Adler, 1987). By developing a rich description of the events and including source documents together with interview data the researcher substantiates claims and allows the reader to formulate their own ideas. Bias is common in all research and cannot be entirely excluded. The argument for “scientific rigour” (van der Mescht, 2002:50) has however been taken into account. Van der Mescht (2002) claims that absence of scientific rigour is evident in “researcher’s failure to engage critically with their work, consider the ethics of their positions as researchers, question the validity of their findings and most importantly acknowledge the shortcomings of the method they have used”.

3.2.3 Reliability

Research would be reliable if a future researcher were to investigate the same research questions following the same procedure and were able to produce similar research findings (Yin, 1994). To enhance the reliability of this study, research interviews were audio taped and transcribed to maintain the chain of evidence and complete the case study database. As suggested by Seidman (1991), transcriptions of the interviews were made available to participants for ethical reasons and to ensure that their views were accurately represented.

3.2.4 Validity

Validity is the extent to which the research truly represents events in a particular situation (Hussey and Hussey, 1997). High levels of validity are achieved in this study as the data is rich in its “explanation and analysis” with the aim being to portray the knowledge of the participants (Hussey and Hussey, 1997:57).

Validation was evidenced through the convergence of interview data, academic and media articles and theoretical concepts. Fairness, defined as a “quality of balance; that is, all stakeholder views, perspectives, claims, concerns and voices should be apparent from the text” (Lincoln and Guba, 2000:180) is present in the study. With transcriptions being made

available, participants also had an opportunity to identify areas they felt were inaccurate or unfair (Seidman, 1991).

Construct validity is important in business research (Hussey and Hussey, 1997). This implies establishing correct operational measures for the concepts being studied (Yin, 2004). This test ensures that the researcher does not use subjective perceptions and judgements on which to base the findings by failing to identify the operational events being investigated. To meet the requirement of construct validity the researcher will outline the research questions being investigated and indicate how the findings will be evaluated in order to reflect relevant and accurate outcomes.

To further scrutinise the research outcomes, the researcher tests for external validity through generalisability.

3.2.5 Generalisability

Quantitative research relies on statistical generalisation by replicating research using another sample. Qualitative research, such as this case study, relies on analytical generalisation from case study to theory (Yin, 2003:37). This refers to the extent to which the research results can be applied to or are relevant in another context (Hussey and Hussey, 1997). In this study, generalisability or the degree of transferability is upheld by ensuring that the researcher declares and clearly describes the research context and makes all assumptions overt.

In the U.S.A. low cost airlines entered the marketplace after deregulation and primarily offered point-to-point services from focus cities using fewer aircraft types. These airlines typically offer a simplified fare structure that was originally aimed at leisure passengers, but is increasingly attractive to business travellers because they do not have restrictive ticketing rules that make it significantly more expensive to purchase tickets within two weeks of the date of departure, or to make changes to an existing ticket. 1time has followed this model, making flying more accessible to individuals who could not previously travel by air. Their model targets a broad market segment therefore also attracting business travellers.

The primary factor differentiating traditional from low cost airline revenue performance is the change in demand. From 2000 to 2003 demand for traditional, legacy carriers in the U.S.A. declined by eleven percent, while demand for low cost airlines has risen by nearly thirty-six percent (GAO, 2004a). While demand for low cost carriers in South Africa is considerable, it is apparent that the South African airline market has expanded to attract first time travellers, thereby creating a new market. As such it is not a result of a mere change in demand from

full service to low cost travelling. 1time was quick to prove sceptics wrong. Within months of their start-up, 1time was able to increase its fleet from three to five aircraft and expanded their routes (Singh, 2005). Domestic airfare competition intensified with SAA beginning to offer low fare specials.

Barkin, Hertzell and Young (1995) identified three major principles to cutting costs, namely: lower input costs, cheaper product design and cheaper process design. Similarities and adherences to these principles as well as to the business models of other low cost carriers compared to 1time Airline will be established in the research findings to test for analytical generalisability.

3.2.6 Sources of Evidence

Through triangulation (Yin 2003:100) "convergence of evidence" will be developed when the data is analysed.

Three of the six sources of evidence suggested by Yin (2003: 86) were used as follows:

3.2.6.1 Documentation

- Letters, emails, announcements and minutes of meetings and written reports
- Newspaper clippings and other articles
- Marketing information and campaign notes

Research material was collected June 2004 until the end of June 2006.

3.2.6.2 Interviews

In-depth, semi-structured and open-ended interviews were conducted with:

- 5 senior managers
- 4 middle managers
- 12 customers or potential customers

All research interviews were conducted and completed in November 2005.

The same questionnaire (Appendix 2) was used for both senior and middle managers in order to strengthen the evidence by ensuring that "trustworthiness, credibility, confirmability and data dependability" was achieved. Interviews with middle management were conducted to ensure that information shared by senior management is communicated to other members of the management team for dissemination. In addition, interviews with middle management were aimed at evaluating the extent to which corporate culture and passion exhibited by senior management is diffused throughout the company.

Customers and potential customers were randomly interviewed (Appendix 3). All customers were asked to answer the same questions. The purpose of these interviews was to gauge how informed customers are in terms of the low cost phenomenon as well as to establish public perceptions of 1time relative to product, service and the complete 1time experience.

3.2.6.3 Direct observations

Direct observations were made during a site visit for interview purposes.

I have experienced the services of 1time Airline's products extensively, as well as those of competing airlines in South Africa.

Yin (2003) acknowledges the importance of direct observations as an additional source of evidence in case study methodology but advises that to increase reliability of the observational evidence it is recommended that more than a single observer is present where possible. For the purposes of this paper only one researcher is permitted and as such, little observation evidence is presented in the findings.

Due to the company being a recent addition to the South African airline industry, no reference to archival records could be obtained other than documented archival newspaper and other media reports.

3.3 Conclusion

The collected data will be analysed by "theoretical propositions" (Yin 2003:111) identified in the Literature Review (Chapter 2). The propositions will aid my research in focussing on relevant data in order to answer the set research questions.

Chapter 4 Findings and Discussion

This research report is written in a single-case narrative format to describe and analyse the findings (Yin 2003:146). To answer the research questions set out in the previous chapter this chapter reports on the practices employed by 1time. In so doing it will establish whether or not the airline has a competitive advantage over its rivals and / or whether the general low cost carrier business model applies in this instance.

4.1 Findings

The research relies heavily on the responses from interview participants, corroborated with newspaper and other media sources. Limited archival documentation was available due to the airline's relatively new introduction into the South African airline industry. A summary of the research findings is presented in Table 1. As each point in the summary is complex in nature with many secondary aspects following from each factor, a discussion of the findings will follow thereafter.

	RESEARCH FINDINGS FROM SOURCES OF EVIDENCE			
RESEARCH QUESTIONS	INTERVIEWS	DOCUMENTS	PASSENGERS	OBSERVATIONS
Motivation for the start up	<p>Window of opportunity recognised by:</p> <ul style="list-style-type: none"> ▪ Industry-wide decline in business class travel ▪ Over-capacity resulting from 9/11 ▪ Strengthened position of the Rand ▪ GDP growth ▪ Advantage of own maintenance company, Aeronexus, within the company structure ▪ Coupled with entrepreneurial spirit and the belief that the SA industry is under-traded 	<p>Decline in business class travel evidenced</p> <p>Confirmation of industry over-capacity</p> <p>Recovery of the Rand</p> <p>GDP growth and positive economic progress</p> <p>Industry and rivals claim over-capacity of SA domestic airlines</p> <p>Rivals caught off-guard by response to 1time's start up as potential market growth was not realised or anticipated</p> <p>Low cost model had proven successful internationally</p>	Price sensitive	
How Competitive Strategies were implemented	<p>Successful industry and competitive analysis to overcome barriers to entry</p>	<p>Evidence that high fixed costs and barriers to entry are experienced in this industry.</p> <p>1time uses various innovate methods to overcome obstacles, most notably the ability to convert cost streams into revenue streams</p>		
	<p>Best Cost Provider Strategy by:</p> <ul style="list-style-type: none"> ▪ cost control ▪ cheaper product design ▪ cheaper process design ▪ exceeding customer expectations 	<p>Confirmation of these strategies by:</p> <ul style="list-style-type: none"> ▪ lowering input costs by insource / outsource decisions and increasing productivity ▪ aircraft modifications ▪ high productivity and new distributions ▪ providing good service 	<p>Most recognise and accept the low cost model need to charge for meals offered onboard</p> <p>Satisfied with ease of bookings and service</p>	Observed by researcher
	<p>Leading the South African airline industry transformation by innovation:</p> <ul style="list-style-type: none"> ▪ all-inclusive fares ▪ lowest ever domestic airfares 	<p>Documented proof of quoted fares and associated strategy</p>	<p>Passengers prefer all- inclusive pricing and conceded satisfaction in obtaining lower air fares</p>	Pricing trends observed by researcher

	<p>Incorporating Game Theory by:</p> <ul style="list-style-type: none"> ▪ implementing win-win solutions with complementors ▪ forming alliances with strategic industry partners 	Substantiated agreements and alliance partners	Alliances have only been noticed by some	Witnessed by researcher
	<p>4+2 Formula evidenced by:</p> <ul style="list-style-type: none"> ▪ effective strategy implementation ▪ strong corporate culture ▪ maintaining a flat organisational structure ▪ visionary leadership ▪ high value of talented people ▪ leading the South African airline industry ▪ transformation by innovative changes and ideas 	<p>Apparent due to airline success</p> <p>Evidenced passion and emotive drivers</p> <p>Attested by skilled workforce joining CEO</p> <p>Confirmation of incumbent airlines not foreseeing success of a new entrant and 1time's market creation</p>		Witnessed by researcher
Why particular Competitive Strategies were implemented	Industry and Competitive analysis is essential for strategy formulation	Theoretical evidence Opportunities are evidenced.		
	Best Cost Provider Strategy pursued as a result of start up opportunities, industry and consumer need for cheaper air travel and cost advantages		Alliances have only been noticed by some	
	Game Theory implementation may stem benefits to the airline, suppliers, rivals and consumers which are otherwise not realised	Substantiated agreements and alliance partners		
	Successful use of the 4+2 Formula often translates into organisational prosperity	Evidence of formula dimensions is established		Observed by researcher
	Competitive strategies were implemented so as to effect market creation and sustainable above-average returns	Statistics from ACSA		

Table 1 Summary of Research Findings

4.2 Discussion

A discussion of each of the dimensions in Table 1 above follows. In the discussion of the various dimensions, reference is made to the literature covered earlier in order to understand, clarify, explain and justify the competitive strategies employed by 1time.

4.2.1 Motivation for market entry

1time began with three partners who jointly owned an aircraft maintenance company. The three partners, Rodney James, Sven Peterson and Gavin Harrison, had an idea to start up a low cost airline in South Africa. Rodney James had previously teamed up with Glenn Orsmond to help launch blue tail Sun Air. James approached Orsmond, who was then the Financial Director of kulula, for his expertise in the airline industry and financial background to join as a partner. Orsmond bought into Afrisource Holidays so that each of the four partners held a 25% share. Afrisource Holidays wholly owns Aeronexus, an aircraft maintenance company, and Afrisource owns 50% of 1time (see company organogram: Appendix 4). Rodney James explained in an interview that he had the idea of setting up a low cost airline prior to the start up of kulula. James' idea was to introduce a "proper" low cost airline which would not be backed by a larger, parent airline, but based on a low cost operating model. James says that one of the keys to operating a successful airline is by controlling the maintenance and maintenance costs. He felt that using the maintenance company from which to launch an airline was a significant cost advantage.

Once kulula had launched as a division of a premium class carrier, Comair, James still felt there was a need for an independent low cost airline. James had noticed the international trend to deregulation and was confident that a privately owned airline could offer more competitive fares by operating from a lower cost base. Opportunities arose when aircraft costs collapsed following the events of September 11th, 2001, allowing 1time to procure aircraft at drastically reduced prices. Glenn Orsmond, CEO of 1time, tells that not only were aircraft prices down, but the Rand had strengthened around the time prior to 1time's start up. He recounts how all 1time's competitors were locked into long term aircraft lease contracts when the Rand was weak. Orsmond estimates that SAA paid around US\$420 million for their 150-seater aircraft and kulula paid approximately US\$380 million for a 115-seater aircraft, while 1time bought their same-aged aircraft at US\$ 18 million. "So when the one guy's paying \$400 million, another is paying \$200 million and you're paying \$18 million ... *and it's a long term deal, you've got a huge cost advantage*", says Orsmond.

In order to satisfy capital requirements, other shareholders were introduced (Company Organogram, Appendix 4). Shareholders of 1time include an IT company who own 30% and

a black empowerment consortium, Mogwele Investments, who own the remaining 20%. Mogwele Investments comprises businessman, Siphso Twala (non-executive chairman), former SAA executive director Zukile Nomvete (previous non-executive chairman), entrepreneur Lumko Luhabe and Thabong Mutsohi, a former Director General at Lesotho's Civil Aviation Authority. 1time is the first, and only, scheduled airline in South Africa to involve a BEE (black economic empowerment) partnership (Singh, 2004). According to the South African Transport Workers' Union the roll out of the BEE charter for the transport sector has been delayed for more than two years due to lack of cooperation by the Road Freight Association and key representatives of the aviation sector (Faniso, 2005b). The proposed charter suggests black direct equity of 25% plus one share.

As stated by Orsmond at the time, "We want to grow our business on volume, not price. Our unique selling point is the simplicity of our pricing and our ability to generate low fares. There is a huge surplus of empty seats in the market, but there is a huge shortage of cheap seats". (Fraser 2004). It was fortunate for 1time that the other domestic airlines did not recognise this need and dismissed claims that 1time's entry could be viewed as a threat. As evidenced in the literature review (Chapter 2), both Nationwide and SAA considered 1time's launch to be irrelevant to their business. Both of the incumbent carriers publicly stated that the South African airline market is already saturated.

In line with research by Mason (2005), Glenn Orsmond relates how the partners had noticed the change in trend from business class to economy class and subsequently to low fare airlines. They had also noted low fare airline growth in Europe, the United States of America and locally with kulula.com.

Aside from their personal interests and emotive ambitions, the entrepreneurial spirit of the partners motivated them to start up 1time due to:

1. the growth in Gross Domestic Product (GDP) and the strengthening Rand,
2. the buy in of aircraft maintenance company for significant cost reduction, and
3. the collapse of aircraft prices following September 11.

A positive correlation between GDP growth and an increased demand for air travel have been established in a statistical study conducted by the Boston Consulting Group (2006). The consulting group found that passenger demand is approximately 1.5 to 2 times that of GDP growth and that the purchase of air travel comes from out of disposable income.

Orsmond believes that had the three factors not occurred simultaneously, 1time would never have been born as the airline would not have been able to achieve a sustainable cost advantage. In sharp contrast to the norm in terms of new entrants usually having a cost disadvantage compared with established rivals, 1time was in a better position than any other start up company as a result of a favourable set of circumstances.

4.3 Industry and competitive analysis

Despite many years of experience in the airline industry, the partners conducted an extensive Industry and Competitive Analysis. Aside from a bank guarantee required by new Civil Aviation Authority (CAA) legislation, new airline entrants have to submit a detailed business plan to the CAA to be evaluated by the CAA board. The business plan would essentially be current and factual, and as such, required extensive industry and competitive evaluation.

It was established in the literature review (Chapter 2) that the South African airline industry can be categorised as “unattractive” and thus, barriers to entry are high. 1time successfully overcame these barriers by virtue of the opportunity they had identified and effective strategic planning.

4.3.1.1 Economies of scale

New entrants are often at a distinct cost disadvantage over rival incumbents due to efficiencies in economies of scale by established businesses gained over time. 1time were however fortunate to enter the market at a good time when circumstances were favourable. The shareholdings of BEE company, Mogwele Investments (with 20% shares), was considered necessary for transformation of the industry, while the IT company (with 30% shares) was essential in heading up the distribution channels of 1time. For these purposes, having an IT business as a sister company added to 1time's obligatory cost control imperative.

4.3.1.2 Customer loyalty and switching costs

“Switching costs” by SAA passengers was identified as a major barrier to entry by 1time. Despite the radically reduced fares offered by 1time in comparison to those offered on SAA, members of SAA's frequent flyer programme, Voyager, still preferred to fly on SAA in order to accrue frequent flyer points to be used towards future travel. Business travellers in particular enjoy travelling on SAA as their company then foots the bill, and the employee can redeem the voyager miles at a later stage for leisure travel. To overcome this obstacle 1time

targeted financial directors of corporate institutions demonstrating the unnecessary costs companies are spending on travel, which is one of the most controllable forms of expenses in any organisation. This barrier of "switching costs" continues to plague the new entrant as many of the corporate decision-makers are also locked into the lure of the Voyager programme. People who don't fly often or who do not belong to the Voyager programme do not appear to be brand loyal. The market segment that is captured by 1time is very price sensitive. The passengers will travel in one direction on one of the airlines and return on another – purely dependant on which is the cheapest. This end of the market will switch airlines for a saving as little as R20.

4.3.1.3 Cost disadvantages independent of scale

Theory suggests that established competitors often have cost advantages which new incumbents cannot duplicate due to established rivals already having favourable locations or access to raw materials. 1time however was able to enter the market and be in a better position to undercut prices due to the window of opportunity they had identified and acted upon.

4.3.1.4 Government policy

Due to a string of airline failures in South Africa in the years prior to 1time's start up, the CAA had implemented a ruling whereby new airline start ups would have to provide financial guarantees. The guarantees were applied to protect consumers in the event of the new airline being declared insolvent and the consumer then forfeiting the sum already paid for the air ticket. 1time is currently the only airline in South Africa that has these guarantees in place.

4.3.1.5 Capital requirements

The opportunity which arose was augmented by the shareholding companies that assisted with capital requirements and intellectual capital vital to the success of the low cost carrier model. The BEE shareholder plays a pivotal role in attracting business customers who are focussed on transformation imperatives and transacting with empowered suppliers.

Additional revenue was sourced by embarking on joint-marketing schemes. These ventures included a partnership with Nando's whereby an aircraft was painted with the outlet's branding in return for payment to the airline. Nashua branded aircraft headrests with their logo and remunerates 1time both financially and through product offering.

4.3.1.6 Access to distribution channels

Typically, the low cost carrier business model excludes travel agents. The sale of seats is primarily transacted online via 1time's user-friendly website. To accommodate proportionately low online access in South Africa, a telephone call centre is available. Tickets can also be booked and paid at the airport-based ticket sales offices. Distribution channels within this model are unhindered and easily overcome.

With low cost airlines being a relatively new concept in South Africa, both 1time and kulula have however engaged with travel agents. Although travel agents are not paid commission by the low cost carriers (nor any longer by many of the full service carriers), they may charge professional consulting fees for bookings through 1time's website or call centre.

4.3.2 Best cost provider strategy

4.3.2.1 Lower input costs

Low cost carriers exploit lower input costs in as many areas of their operation as possible. Where traditional carriers have many significant cost streams associated with their operation, low cost carriers convert as many cost streams as possible into revenue streams. Some insourcing and outsourcing decisions had to be reached. The decisions taken depend on the economies of scale and which option would be most economical for the airline. Listed below are some of the capital intensive activities which the airline is tasked with:

(i) Catering

1time does not offer a complimentary onboard meal service. This cost has been converted into a revenue stream by offering a selection of snacks and beverages to be purchased during their flights. At start-up, 1time outsourced this non-core meal service. However, subsequent investigation into the catering service and the high cost of catering delivery to the airport regardless of the quantity of the order and regular catering delays revealed that higher revenue could be earned if the service was insourced. The initial expense was high due to the need for premises to house the new catering operation, additional human resources, refrigeration and other equipment purchases. Similarly, delivery vehicles for transportation from the catering premises to the airport have to conform to specific regulations and have hydraulic lifts fitted for delivery to the aircraft. 1time commenced operation of the insourcing of the logistics of catering on 1 October 2005. Although procurement of the snacks and beverages continues to prevail, all logistical procedures are now managed by 1time. While the catering function was only breaking even in the past, catering is making an average profit of R300 000 per month since it has been insourced.

According to 1time management, the cost price of a meal on a full service carrier is estimated at R60.00 per person, excluding beverages. On an average flight carrying 100 passengers this effectively costs premium airlines R6 000 for the provision of the meal alone excluding any drinks. 1time's low cost strategy results in an effective transfer of costs and a profitable (catering) insourcing operation.

(ii) Aircraft maintenance

Substantial cost savings are enjoyed by 1time by utilising their sister company, Aeronexus, for all aircraft maintenance. Rodney James, Marketing Director of 1time and an aircraft engineer by trade, advised that aircraft maintenance costs amount to approximately 25% of the operating cost of an airline. Routine maintenance through Aeronexus saves 1time 10 to 15% on maintenance costs. According to James, their aircraft maintenance arrangement is one of 1time's biggest cost advantages over Comair and kulula who outsource their maintenance requirements to SAA and Safair.

(iii) Labour costs and productivity

With regard to their call centre, 1time is able to cut down on staff by offering lucrative incentives to their staff. The manager of the call centre believes that, in this environment, incentive schemes are more effective in weeding out less productive staff and reward those who meet and exceed targets. Call centre staff productivity is measured against each agent's confirmed revenue and incentives are offered to the highest earners.

In terms of pilot salaries, Orsmond confirms that 1time pilot's salaries are on a par with those of premium airlines. 1time's utilisation of pilots is higher, however. Not only are pilots and cabin crew staff more productive than other airlines, the aircraft are also kept in the sky for longer periods of time than fleets of competing airlines. The longer they operate, the fewer aircraft are required and the more revenue is produced. While their competitors' pilots fly approximately 600 hours per annum, 1time's pilots fly 800 hours a year, which is well below the maximum number of a thousand hours per year allowed by the rules of the Civil Aviation Authority (Singh, 2004). 1time pilots and crew are included in a profit share of the company and do not belong to any unions.

1time's average aircraft utilisation is 240 hours per month. Kulula often cancel flights and channel their passengers through Comair, making their utilisation much lower at 180 to 190 hours per month. Due to their long turnaround times and the number in their fleet, SAA's domestic utilisation is very low at an estimated 160 – 170 hours per month.

4.3.2.2 Cheaper product design

(i) Air service

1time offers an economy class service only. As 1time does not offer any hot meals, the full galley was removed from each aircraft, thereby not only creating space for extra seats but also removing the ovens which weigh approximately 250 kg each. Although additional seats were fitted, 1time does not compromise on passenger comfort with legroom being on a par with SAA at thirty-one inches. The aircraft's own stairs are also removed, as well as extra fuel tanks where possible as these are not required for the short range flights 1time operate. Since lighter aircraft use less fuel removing a total of approximately one ton results in substantial cost savings.

(ii) Secondary Airports

Since there are a limited number of secondary airports located close to large city hubs, South Africa does not have the advantage of many European countries where airlines can negotiate with secondary airports for cheaper landing rights and more convenient time slots. In addition, existing secondary airports such as Lanseria (Johannesburg) and Virginia Airport (Durban) are relatively inaccessible, particularly for large fuel tankers and other supplier vehicles. A further complicating factor hindering the use of Lanseria is the price of fuel which is more than forty cents per litre higher than at Johannesburg International Airport where it is supplied via pipeline by fuel farms which service the airport. This infrastructure is not in place at Lanseria. With the volumes of fuel consumed by the airline, Lanseria airport is not a viable, cost-saving option for 1time. The only possibility of Lanseria being a feasible destination for any scheduled low cost airline would be if operating a new generation, long-range aircraft on this route. If, for example the routing were from Cape Town to Lanseria and return, such an aircraft will be capable of taking sufficient fuel in Cape Town and returning to Cape Town without needing to refuel. 1time's DC9 aircraft are not capable of uplifting such a vast volume of fuel. While their MD82 has this capacity, 1time management have made a strategic decision to retain these larger aircraft on their primary routes for efficiency and superior product where the route has proven to be successful.

Australia also does not have secondary airports which are conveniently located and with the capacity to handle high numbers of passenger traffic. In such cases, low cost carriers therefore have to decide which cities the airline will fly to, rather than which airport they should opt for.

4.3.2.3 Cheaper process design

(i) Turnaround time

According to 1time Operations Manager, Graham Paterson, turnaround times at 1time's outstations in Port Elizabeth, East London, George and Durban can take a minimum of approximately 20 minutes. In Cape Town an aircraft turnaround time can be roughly forty minutes, while Johannesburg will need in the region of 55 minutes due to the size of and congestion at the airport. These quick turnaround times aid the other cost saving tactics of allowing more flying time per aircraft and saving on aircraft "parking" costs. Consequently there is higher utilisation of staff.

(ii) Simplified boarding (new automated system)

In their efforts to encourage business travellers to use their service, 1time are in the process of developing an automated check-in facility as a pilot project at Johannesburg International Airport. This facility will be the first of its kind in South Africa for economy class passengers and will allow travellers with hand luggage only, to check themselves in at the airport, thereby avoiding the inconvenience of lengthy queues.

(iii) Distribution systems

1time's user-friendly online booking engine is simple and uncluttered. On completion of the booking a reservation number is provided. Passengers check-in for flights using the reservation number generated by the booking engine. This ticket-less operation is a further cost reduction strategy by the airline. Ticketing licences are issued by the International Air Traffic Association (IATA). Large guarantees based on revenue are payable to IATA for the licence.

A further benefit of the booking engine is that it avoids the high fees charged by central reservations systems (CRS) companies which are used by travel agents

(iv) No commission

1time was the first South African carrier to offer zero commission to travel agents. At the time of 1time's launch, competing airlines were paying commission of 5 to 7% per booking, while kulula rewarded travel agents by returning a commission of R28,50 per flight sector (d'Angelo, 2005b). In addition, the airline promised to increase the commission to R40 per sector in April 2005 as well as to aim doing 30% of its business through travel agents (*ibid.*). Kulula's commission structure has since been withdrawn and it no longer pays commission to travel agents apart from an agreement which is in place with Carlson Wagonlit / Concorde

Travel whereby an override commission is paid to the head office based on volumes. The zero percent commission structure by 1time saves the airline revenue and is in line with international low cost carrier trends. Travel agents selling 1time tickets charge a booking fee from the client.

4.3.3 Innovation and change

1time changed the industry by:

- offering fares approximately 60% lower than were sold by SAA at that time. At that stage, kulula's fares were roughly 40% lower than SAA's market price. 1time CEO reported that 1time had managed to save up to 70% in Rand terms by capitalising on the window of opportunity that was presented (Fraser, 2004);
- introducing all-inclusive fares and not following industry trends of instituting fuel surcharges to alleviate fuel price increases;
- initiating novel methods of airline marketing such as assigning "street hawkers" with posters advertising the airlines "no nonsense" pricing attitude (Appendix 1);
- creating revenue for the airline by painting an aircraft with a fast-food outlet, Nando's, branding as well as allowing office equipment manufacturer, Nashua, to emboss aircraft seat headrests with their branding (Business Report 2004b); and
- generating airline publicity by exhibiting daring air displays in their DC-9 aircraft at various air shows, instead of the usual static displays as were the norm by scheduled airlines.

4.3.3.1 Game Theory

Based on the Value Net presented in Figure 3 on page 35, the Value Net in relation to 1time is illustrated in Figure 6:

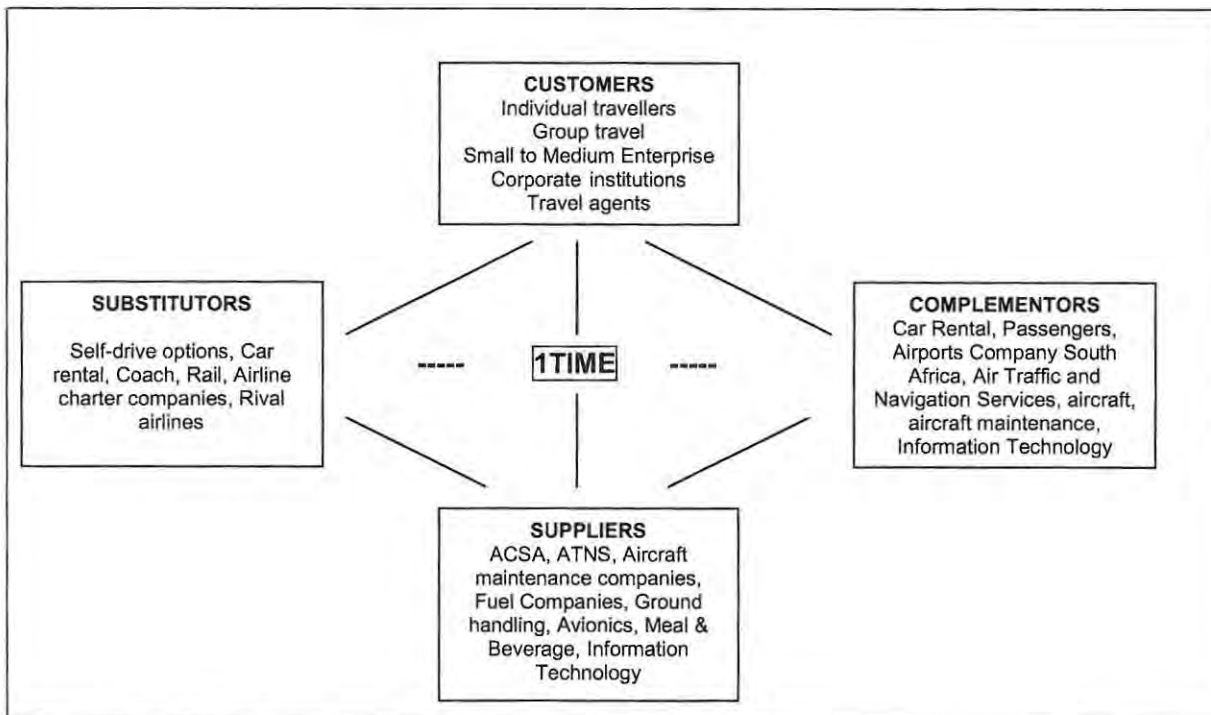


Figure 6 The Value Net from the 1time perspective

1time has formulated alliances with industry partners. They have an agreement with Tempest Car Hire whereby passengers who have booked online with 1time, may click onto Tempest's online link to arrange car hire at a discounted, negotiated rate exclusively for 1time passengers. Effectively, 1time passengers have the benefit of both low air fare and reduced car rental rates on arrival at their destination. As such, the passenger decision to fly and have access to a hire car at their destination can outweigh their decision to "self-drive", given the convenience of the reduced travel time and car rental rates under market value. This alliance effectively promotes a win-win solution in terms of substitutors. More recently 1time has also put in place "Tempest Transfers". This is a pre-arranged chauffeur service for 1time passengers from their home to the airport at a nominal fee. This saves passengers the airport parking costs as well as avoiding the problem with parking congestion which is experienced at the major centres.

1time has also established deals with established resorts on the Wild Coast. Similar to the car hire agreement, 1time passengers can click on the online link for these resorts to access holiday package deals. The resorts in turn have access to lower airfare rates at specified off-peak periods of travel. This agreement channels passengers travelling to the Wild Coast to book using 1time, but also helps to promote tourism in this coastal area. The agreement promotes trade with customers and is a win-win strategy in terms of complementors and customers as the resorts and the airline benefit from increased bookings and the customer

enjoys reduced costs. The airline is in the process of negotiating with the City Lodge group for reduced rates for 1time passengers with a similar online booking link.

In terms of customers, 1time has put in place negotiated rates with some corporate enterprises. This agreement grants the corporate institution reduced rates on all flights where seats are available. 1time benefits from repeated bookings from the respective company where the firm may have considered rival airline reservations.

South African tour operations regularly offer domestic packages which include flights, accommodation and car hire. 1time has also formed an alliance with one such operator, Absolute Tours. This agreement allows Absolute Tours to book 1time tickets at a discounted rate to incorporate in their package arrangements. The benefit to 1time is repeated bookings, often for group travel.

The main suppliers to 1time also supply to 1time's competitors. No airline would be able to operate without access to quality airport facilities and air traffic navigation, let alone the actual aircraft or fuel. Larger airlines may be able to formulate a partnership with fuel companies due to the volumes consumed, however 1time is not yet in as dominant a position as the government subsidised SAA. Though reliant on the business of airlines, ACSA and ATNS operate in a monopoly and like SAA, form part of parastatal Transnet. Neither of these suppliers is open to negotiation of their rates or services with the airline.

Aircraft maintenance is well secured through Aeronexus, a sister company to 1time. Within the low cost business model, access to advanced Information Technology services is essential for their online booking system. A thirty percent share of 1time is owned by an IT company, MKJH Trust. Both arrangements significantly aid win-win solutions with complementors.

Onboard meals are procured from supermarket chain, Pick n Pay. In return for negotiated rates for the meals, all onboard Pick n Pay products bear the supermarket's branding which translates into advertising for consumption by passengers.

Alliances, partnerships and associations with other airlines have not been pursued.

Game Theory suggests that one or more of the five elements in PARTS are to be changed in order to change the game (Brandenburger and Nalebuff, 1995). Players in the airline industry are arguably more fixed than in other industries. Similarly, suppliers and complementors are unlikely to change significantly. 1time has added value by introducing the link to car hire and accommodation establishments. They are also actively pursuing an

upgrade to their IT systems for automated check-in and to their service levels by scrutinising every function of the experience. The all-inclusive pricing model has also been regarded as added value by many passengers. Full service airlines traditionally had many restrictive rules coupled to their lower fares such as high ticket change fees and advance booking requirements. 1time maintained a simple booking and booking change procedure. The added value and rule changes can also be characterised as tactics used by 1time to clarify misconceptions. An example of this is 1time's tactic of advertising fully inclusive air fares and prominently mentioning that "no hidden costs" would be included on payment. Airline passengers on all South African airlines previously were unsure of the total airfare given that airlines advertised the "base fare" excluding any airport taxes or other mandatory charges. On entering the South African airline industry, 1time were warned that the market could not sustain another carrier due to overcapacity (Barron, 2005).

Game Theory suggests that drawing the Value Net for a business is only the first step to changing the game. The second step according to Brandenburger and Nalebuff (1995) is to identify the five fundamental elements of the game: Players, Added Values, Rules, Tactics and Scope: PARTS. "To change the game, you have to change one or more of these elements" (Brandenburger and Nalebuff, 1995:61). 1time successfully changed the boundaries of their game by shaping the four of the five fundamentals of Game Theory:

(i) Players

As can be seen from Table 2 (p. 73) to Table 7 (p. 84) below, since the inception of 1time's flight operations in February 2004 passenger numbers to various domestic destinations have increased. Although these passenger numbers are reflective of total travel and not specific to 1time, the increase in numbers after 1time's inception on various routes is significant as it suggests that lower fares and subsequent competitive pricing by rivals stimulated the market. The statistics intimate that 1time created a new market and did not merely poach passengers from rival carriers.

Often monopolistic and / or parastatal in nature, airline suppliers are relatively constant and can therefore not be easily replaced by another. However, to ensure costs remain as low as possible 1time has negotiated with alternative suppliers. Their decision to use Pick 'n Pay catering onboard was, for example, made after careful consideration and consultation with various catering suppliers.

1time management's insight to convert car rental company substitutors into beneficial complementors has been beneficial, not only in terms of added value for their passengers,

but also for the car rental company who were offered a new distribution channel through links on the online reservations system.

Soon after 1time's start up, the airline approached a coach ticket sales consultant based at a filling station in George, Western Cape. The consultant was educated on the airline services, advised how to make online bookings and offered a preferred rate for all sales to the airline. The consultant was therefore able to encourage customers to rather use 1time's services at fares only nominally higher than coach fares, but enjoy the benefit and convenience of reduced travel time. Although using this innovative and smart distribution channel to introduce many first time flyers to air travel and simultaneously generate market growth, many travel agents disapproved as they were not approached for the sale of 1time tickets initially (d'Angelo, 2005b). With the low cost carrier business model being a relatively new phenomenon in the South African travel industry, many agents did not understand the airline's need to keep their costs to a minimum by using inexpensive channels of distribution and avoid paying agent commissions. Shortly after 1time's inauguration the South African travel agency business model changed when most airlines reduced or completely cancelled commission, following international trends. Agents are now at liberty to sell tickets on any airline, either online or through their central reservations systems, and charge a fee to the client for their services. 1time management have since modified their stance and recognised travel agents as a valuable distribution channel. Acknowledging in research interviews that the market dictates acceptance and application of their business model, 1time responded by employing a small sales team to call on agents in the major city centres for the purposes building relationships and product training. 1time still does not pay commissions on the sale of their tickets however, but accept that travel agents charge service fees for their expertise and travel arrangement services.

(ii) Added Values

The preferred supplier agreement between 1time Airline, Tempest Car Hire and Tempest Transfers are mutually beneficial the companies for reciprocal business and is an enticing value adding advantage to the customer in terms of preferential rates.

Since the airline outsources their passenger and ground handling services at airports, many of the processes are not wholly controlled by permanent 1time staff. The increase in air travel has severely hampered swift airport operations due to reduced capacity at hubs such as Johannesburg and Cape Town, which are maintained by ACSA. ATNS are ACSA are both monopolies and all airlines operating within South Africa and utilising ACSA airports are governed by their procedures. Although not solely due to these hindrances, but also to

ensure an efficient, effective and pleasant travel experience for their passengers, 1time continuously explores methods to improve turnaround times between flights by keeping abreast of international trends and formulating area specific strategies. Smaller domestic airports such as East London and Port Elizabeth do not handle the high traffic volumes of their international airport counterparts and appropriately do not have air-bridge boarding facilities as passengers can simply walk from the aircraft to the airport terminal. The crew also do not have to load any catering equipment from these smaller hubs. As a result, turnaround times in these cities can be expedited thereby balancing possible delays caused at other airports. At larger airports 1time airport staff are trained to be vigilant of impending situations which can cause delays. Catering and rotating cabin crew personnel have strict timelines to meet aircraft turnarounds. Most airport staff are sensitised towards aircraft on-time performance and performance bonuses awarded accordingly.

1time is actively developing a "self check-in" online facility for passengers with hand luggage only. This feature not only promotes speedy check-in for 1time's growing corporate traveller market, but also assists in the airline's low cost objectives to maintain human resource numbers despite increasing demands in passenger numbers and ensuring prompt service at short check-in queues. The system is due for implementation by mid-2006.

(iii) Rules

1time entered the market with tongue-in-the-cheek marketing campaigns, including the slogan "Azikho lo nonsense", meaning "no nonsense". After 1time's launch announcement, but prior to their inaugural flight, 1time airline had already claimed that airlines had hoodwinked South African consumers for years, but would soon be pleasantly surprised with their low air fares (Lourens, 2004). Press releases blatantly reprimanded rival airlines for overcharging passengers and disguising operational costs in what competitors termed "taxes" as airlines, in the past, separated base air fares from what was termed "airport taxes" and VAT. 1time initiated a change to the air travel pricing policy in South Africa as it was the first South African airline to introduce fully inclusive air fares (Rondganger, 2004b). Kulula amended their pricing within days after 1time's claims that other carriers have "hidden costs". It was not until August 2006 that fully inclusive advertising was introduced by the majority of travel agencies as enforced by their industry association, Association of South African Travel Agents (ASATA) (Saturday Star, 12 August 2006)

(iv) Tactics

The public is repeatedly reminded of the poor management and frivolous spending habits associated with the national carrier's much publicised hedgebook losses (Reuters, 2004b),

management extravagances and uncontrolled strike action (Faniso, 2005a). 1time Airline's launch and subsequent press statements fuelled public interest and created awareness of the ongoing financial inadequacies of the state funded competitor, South African Airways. 1time's ability to significantly reduce airfares (60% below SAA while kulula was 40% below SAA) justifies the claim (via interview) by 1time CEO, Glenn Orsmond, that his airline is the first truly low cost, independently owned airline in South Africa. Due to their private ownership status and the fact that 1time has succeeded in radically lowering the cost of air travel in South Africa, the airline's management dismiss being labelled a "second mover" in the low cost airline industry as they claim to be first to introduce a genuine low cost operation.

(v) Scope

Although 1time incorporated other aspects of travel apart from air travel into their game, Game Theory suggests that to change, the airline should incorporate or expand into other industries. The available research material does not provide any evidence of 1time changing the scope of their game through "expand[ing] it by creating linkages to other games, or ... shrink it by severing linkages" (Brandenburger and Nalebuff, 1995:70). This does not, however, detract from the successes 1time has achieved by effectively shaping the remaining four elements in Game Theory's "PARTS". According to Game Theory, it is only necessary for "one or more of these elements" to be changed in order to "change the game" (Brandenburger and Nalebuff, 1995: 61).

1time has created, not poached, market share by offering lower airfares and changing the game. As evidenced in Table 2 to Table 5 below, the market has grown considerably since 1time entered the market. This growth can be attributed to successful implementation of Game Theory, lower fares and tactical specials, as well as by the ensuing price wars by competitors, which stimulated air travel.

	JAN	FEB	MAR	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
2000	234 651	206 668	265 375	247 937	248 649	239 653	250 403	246 183	253 532	268 402	276 110	240 321
2001	251 654	232 231	259 317	244 571	239 374	224 794	241 863	254 596	249 141	256 564	254 953	233 921
2002	257 940	248 649	282 831	279 845	253 677	239 854	246 291	255 729	267 897	285 616	283 267	253 103
2003	274 029	261 385	304 021	262 398	264 726	244 517	249 974	275 001	288 780	297 608	305 120	288 402
2004	301 843	295 569	337 748	332 506	296 263	289 494	305 985	325 653	326 116	326 774	327 741	340 272
2005	344 248	321 572	376 890	357 633	352 388	347 099	350 971					

Table 2 Passenger Arrivals (domestic) at Johannesburg International Airport

1time launched their return service to and from Johannesburg on 25th February 2004. The effect of 1time's entry into the market can be seen in comparing the number of domestic

passenger arrivals at Johannesburg International Airport: The figure for March 2004, for example, shows only a 11,09% increase over March 2003, while the figure for March 2005 shows a 23,96% increase over March 2004.

Kulula.com launched their first return flights to and from Johannesburg International Airport on 1st August 2001. In contrast to the figures above, comparing domestic passenger arrivals at Johannesburg International Airport in August 2001 with August 2002 shows only a marginal increase of 0,44%. Similarly, comparing the figures of August 2001 and August 2003, shows an increase of only 8%. The figure for August 2004, when 1time was also operating at this airport shows a 18,41% increase over the figure of August 2003 and a 27,9% increase over the figure of August 2001.

	JAN	FEB	MAR	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
2000	197 362	246 453	263 904	246 724	232 056	236 936	261 352	245 171	250 147	274 528	264 506	268 095
2001	212 309	232 779	251 214	244 028	227 081	224 893	243 607	257 910	246 324	263 423	247 220	277 113
2002	212 476	250 181	295 621	258 183	245 832	229 539	260 031	259 072	260 180	300 726	279 875	301 947
2003	230 151	294 129	288 458	263 738	249 708	248 210	283 445	283 626	290 964	314 879	296 499	333 271
2004	256 807	293 600	325 736	320 128	294 618	287 974	328 164	323 643	318 123	341 247	329 258	389 432
2005	296 419	327 388	393 792	355 585	337 420	341 258	373 181					

Table 3 Passenger Departures (domestic) at Johannesburg International Airport

While figures from the website and annual report of the Airports Company of South Africa (ACSA) are not indicative of 1time's passenger numbers only, it is clear that 1time's entrance into the South African market has further stimulated market growth. Although other factors such as the growth in GDP may have influenced this market growth, which can also be ascribed simply to the price wars between rival airlines initiated by the arrival of a new entrant into the market, the impact of 1time's lower fares from the outset, due to their cost advantage, cannot be dismissed. The growth in passenger departures out of Johannesburg International Airport from the period February 2004 to February 2005 is 11.51% while growth from July 2004 until July 2005 is measured at 13.7%.

In May 2003, Glenton de Kock, then CEO of Tourism Buffalo City, raised concerns over the high prices of air tickets for travel into and out of East London (Gerardy, 2003). De Kock quotes a SAA promotional fare from East London to Johannesburg starting from R2 332. In July 2004, twenty days before 1time began operating between Johannesburg and East London, SAA announced special fares on this route. The cheapest of the special fares was to be booked at least 10 days in advance at a special fare of R650 one way, excluding surcharges and taxes (Daily Dispatch, 2004). 1time's launch fare was offered as an all inclusive fares of R390 one way. In November 2004 1time accused SAA of having "ripped

off" the public for years (Lourens, 2004) and said that, with 1time introducing competition on this route, East London had moved from being the most expensive domestic route in South Africa to the cheapest route.

East London airport has shown tremendous growth since 1time's arrival in the city. The city has the fastest growing airport in the world with 43,34% passenger growth recorded within 1time's first year of operating on the Johannesburg – East London route (ACSA Annual Report 2005).

Kulula has operated flights on this route three times per week (on Thursdays, Fridays and Sundays), but passenger growth did not seem to be affected since their inaugural Johannesburg – East London flight in February 2005 (Jonker-Bruce, 2005). In March 2005 Gidon Novick, executive director of kulula, was confident that this airline would be able to introduce a daily service on this route "as a matter of urgency" (Elias, 2005b). However, the new flight schedule never materialised as kulula announced on 21 January 2006 that they would abandon the Johannesburg – East London route with effect from the end of January 2006 (Elias, 2006).

	JAN	FEB	MAR	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
2001	11 919	12 936	14 394	14 250	13 974	13 649	15 185	13 760	14 397	14 809	15 064	14 608
2002	11 014	13 042	14 724	14 651	15 506	14 056	15 529	15 433	14 876	17 441	16 278	15 380
2003	11 979	14 943	16 601	77 02	15 038	15 288	15 331	14 104	15 016	16 795	16 199	15 633
2004	90 36	14 399	16 770	15 157	15 090	14 652	17 595	18 439	19 704	20 005	19 096	21 629
2005	16 051	18 714	22 459	21 664	20 405	22 955	23 281					

Table 4 Passenger Arrivals (domestic) at East London Airport

	JAN	FEB	MAR	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
2001	12 749	13 472	15 149	14 650	13 369	13 894	15 247	14 649	14 314	14 853	14 632	13 198
2002	13 015	13 902	14 235	14 608	14 626	12 856	14 124	15 241	15 206	17 437	15 928	15 918
2003	12 181	14 624	16 902	15 474	16 443	15 240	15 759	16 604	14 943	17 062	17 121	16 770
2004	18 433	16 832	19 126	17 072	17 366	16 067	17 343	19 565	19 869	20 098	19 230	19 321
2005	18 214	19 311	23 319	22 553	22 588	23 081	24 843					

Table 5 Passenger Departures (domestic) at East London Airport

The ACSA statistics in the above Tables are a testimony to market stimulation by the low cost carriers. As encapsulated by Brandenburger and Nalebuff (1995:59), "the game of business is all about value: creating it and capturing it".

4.3.3.2 4+2 Formula

The following paragraphs describes the theory against the information derived from interviews with 1time's executive and middle management.

(a) Strategy formulation

The "4+2 Formula for Business Success" theory (Nohria, Joyce and Robertson, 2003) suggests that in order to be successful, firms have to create and communicate a clear strategy and remain focussed on their strategic goals. The strategy should be orientated towards the company's target market and must be achievable.

In terms of competitive advantage, Orsmond says the airline must have the lowest cost. He believes that the market travels on price. Some of the long-term air travel trends noticed by the partners prior to start up include fewer passengers flying business class, of which the market has shrunk by approximately 80%. The partners also noticed that, once the low fare airlines sprouted globally, many travellers were moving from economy class to low cost airlines and the an increasing number of travellers select tickets on price. 1time therefore competes on prices first and delivering a service that exceeds passenger expectations.

Orsmond feels that strategic decisions are made by following the market and that five or ten year plans are not appropriate in the airline industry. He claims that 1time does not even have a one year plan. Due to the intense of rivalry in the South African airline industry, strategic management meetings are not minuted or documented in an attempt to keep future plans completely confidential at executive management level until implementation when other input from other staff is required. Although some expansion plans are under consideration, 1time feel it is also necessary to consolidate. Management is therefore cautious of growing the airline too big too quickly.

Interestingly, each 1time employee did not hesitate to say that the airline does not have a long term strategy. Yet, after a brief discussion it was evident that each person is very much aware of the direction of the airline, which means that there is a definite trickle down of information from executive management to middle management. The idea of being aware of market conditions and trends to "follow the market" was expressed by all interviewees.

(b) Strategy execution

The ability to establish and sustain effective strategic and operational execution is highly regarded. Nohria *et al.* (2003) argue that strategy execution is more important than the

strategy itself. This was re-iterated by 1time's management where most commented that it "doesn't help that one can formulate strategy if one cannot execute".

1time has been concentrating on redesigning their product in order to offer an exceptional service to their customers. In all aspects of their product offering, from the human touch, to automated processes, the aircraft and other aesthetics, management want to exceed passenger expectations by creating new procedures or enhancing current operations for unbeaten operational execution. 1time's management focuses specifically on processes that will improve efficiencies, speed, reliability, and reduce costs.

(c) Corporate culture

A performance-based, ethical culture was found by Nohria *et al.* (2003) to be one of the four primary management practices applied by winning organisations. High staff and aircraft productivity linked to performance related incentives and bonuses are rated highly by 1time. High productivity is essential for implementation of 1time's low cost business model. When hiring airline staff, particularly cabin crew, 1time sought individuals with no previous airline experience so that 1time could create the culture it desired instead of having competitor airline's cultures indoctrinated on 1time staff.

1time's new marketing company, DDB Worldwide, designed posters specifically for staff to be displayed in 1time's head office call centre and in meeting rooms. The posters are focussed on 1time's corporate values of good service and courtesy towards all passengers.

1time has also recently undertaken social investment activities such as co-ordinating a drive for "lap desks", portable desks for students of underprivileged schools that do not have desks for all the pupils.

(d) Organizational structure

Nohria et al's theory of "What Really Works" suggests that a democratic organisational structure with flattened hierarchy is more effective than a bureaucratic organisation. A more flexible structure empowers staff and encourages faster decision-making and in order to simplify processes.

During interviews it was very clear that management would maintain their current flat organisational structure. With most of management previously employed by Comair and involved in the start up of kulula, they are acutely aware of the inefficiencies of bureaucracy. 1time members who were previously employed by other airlines specifically mentioned the unnecessary layers of management they had experienced where a channel of supervisors

and managers were to be approached in a specified sequence for a decision to be taken. The organisational structure at 1time's head office is quite the opposite. Any member of staff is free to approach any of the executive managers or the CEO should guidance or clarity be sought on a matter. Orsmond commented that all of the 350 staff members at the airline, all activity participate in daily activities and contribute to decision making. He added that he knows about each flight delay up to the minute, what the ticket sales were, the amount of cash that was banked and the average fare sold on the previous day. Granted the airline is still small, it can be argued that most airline CEOs would not have daily access to this information. Ames and Hlavacek (1990) deem this continuous cost management to be imperative for competitive success.

Orsmond also comments that at 1time there is no set structure because "you know what your job is and you do it". He explains that within executive management it is not a matter of reporting to anyone, but rather of keeping colleagues informed of developments within one's own area of expertise. Orsmond also believes in "honest confrontation". All of the executive managers are at liberty to tell any of the shareholders when they disagree with decisions and subsequently make suggestions and discuss solutions. The shareholders value input from the team as they have been hired specifically for their airline experience and knowledge in relevant departments. Management acknowledge that their culture will become more difficult to maintain if they become much bigger.

(e) Talent (recruitment and retention)

The ability to attract and retain talented individuals is an important strength of winning companies. At 1time, Orsmond places great value in people. On a number of occasions during the interview he responded that "it all depends on people". The fact that specific staff members with expertise in relevant areas of airline procedures were poached from a competitor airline can also demonstrate confidence in each poached individual now in managerial positions at 1time. 1time has been able to attract this talent and has been able to retain that talent so far.

(j) Leadership

It is imperative for a successful company to have a leader dedicated not only to the future prosperity of the business, but also to its people. Nohria *et al.* (2003) suggest that the qualities a leader should possess are:

1. relationship building with all people within the organisation and task executive management to behave the same way, and

2. adept opportunity-seeker and problem solver.

1time certainly has these qualities in their leader. Glenn Orsmond has an open door policy for all of 1time's staff and from the interviews it is clear that employees of all levels are comfortable to approach the CEO as well as the executive management team on relevant matters. From the very start up of 1time it is evident that Orsmond spotted a window of opportunity for the creation of a low cost carrier. This motivated his departure from the position of Financial Director at Comair, a listed company, where Orsmond had share options and no financial or personal interest or risk.

(f) Innovation

Some companies' strengths lie in innovations that can transform the industry in which they operate. At 1time this is not a priority. Being in a highly competitive industry, 1time does not feel there is any significant innovation it can develop at this stage, but rather that anything which it may develop will be duplicated by their competitors within days or weeks. As such, 1time's priority is to improve on efficiencies, processes, product and price as opposed to introduce new innovations. Notwithstanding these findings within the interview process, research indicates that 1time Airline is actively innovative and has succeed in transforming the industry eg. all inclusive ticket prices, self check-in facility development.

(k) Mergers and partnerships

Winning companies that utilise this practice are able to generate returns in excess of the payment within three years of the transaction being concluded (Nohria et al, 2003). 1time will not in the foreseeable future diversify their service beyond airlines and are not in the business of forming mergers.

(l) Conclusion

Each interviewee was asked to rank the the eight elements of the 4+2 formula in order of importance in terms of their link to competitive success. With 1 representing most important and 8 being least important, the weighted average scores resulted in the interviewees prioritising the "4+2" criteria as follows (Nohria et al.'s (2003) four fundamental business actions are printed in bold):

Number	Senior and Middle Management Candidate Responses									Weighted Average
	1	2	3	4	5	6	7	8	9	
Strategy execution	3	3	4	1	1	4	1	2	1	2.222222
Leadership	2	1	1	4	2	1	6	3	4	2.666667
Innovation	4	2	5	3	4	5	3	4	2	3.555556
Talent	1	4	2	6	3	6	7	1	7	4.111111
Corporate culture	5	6	3	2	6	7	8	5	3	5
Strategy formulation	6	6	6	5	5	3	2	7	6	5.111111
Organisational structure	7	7	7	7	7	2	5	6	5	5.888889
Mergers and acquisitions	8	8	8	8	8	8	4	8	8	7.555556

Table 6 Weighted Average Scores of “4+2 Formula” Criteria

In summary, the criteria are prioritised in the following order:

1. **Strategy execution**
2. Leadership
3. Innovation
4. Talent
5. **Corporate culture**
6. **Strategy formulation**
7. **Organisational structure**
8. Mergers and acquisitions

I believe that many of the interviewees ranked these business practices without due consideration. From the interview data it seems that each of the four primary practices (printed in bold above) is fully entrenched at 1time and that two of the four secondary practices, *Leadership* and *Talent*, compliment these fundamentals. According to the ranking by the interviewees *Corporate culture* and *Organisational structure*, for example, are less important to competitive success. However, from the informal discussions and personal observations at 1time's Head Office, it is clear that both practices are very important to the people at the airline. Every person I encountered commented on the flat and flexible organisational structure at 1time. In addition, I observed a very relaxed atmosphere in 1time's office which resulted in entry level staff being completely comfortable and at ease with management and vice versa.

Similarly, the interview data suggests *Innovation* not to be a desired business practice as innovations were perceived by 1time to be very easily duplicated within this industry. Conversely, *Innovation* scored third highest within the ranking.

4.3.4 Reasons for chosen competitive strategies

Industry and competitive analysis is imperative for strategy formulation. The entrepreneurs who started up 1time were cognisant of the changes in the airline industry as well as political and economic changes. This awareness of airline trends, foresight and planning enabled them to create a cost advantage.

Due to the start up opportunities, a Best Cost Provider Strategy was pursued. 1time's marketing payoff line, "more nice, less price" was derived from this business level strategy. The true essence of Best Cost Provider Strategy integrates Overall Cost Leadership and Differentiation. Orsmond's business model is very simple, "Price and service. We have to have the lowest prices. That will bring them on board. The way we'll keep them, is service" (Barron, 2005).

Investigation into competitive rivalry reveals that 1time does not consider itself to be a "second mover" in the low cost airline industry in South Africa. Glenn Orsmond claims that 1time is the first low cost airline in South Africa who has managed to offer truly low fares. Since kulula is dependent on its parent company, Comair, a subsidiary of British Airways, and does not offer truly low fares, it does not qualify as a genuine low cost carrier.

Since most of 1time's executive management were previously employed by kulula (Business Report, 2004: learning to fly comes with a touch of blood letting). they share common ideas on the experience of their participation in the start up of kulula.

By having been involved with the start up at kulula the executive management of 1time knew how to keep costs down, how to manage processes, system problems and maintenance issues. These managers displayed a personal dedication and a "hunger" for success. Since kulula had already popularised the concept of "low cost travel" 1time did not have to educate travellers on the meaning of "low cost travel". The timing of the start up of 1time was the most important. According to 1time's CEO, without all the cost advantage factors playing simultaneously, 1time may never have existed.

Some of the challenges faced by the entrepreneurs in setting up 1time include kulula's strong and established brand identity which resulted in people considering kulula first when thinking about a low cost carrier. Since people are often sceptical of trying a new product, being backed by Comair gave kulula an advantage over 1time as a totally new independent airline.

1time's CEO succinctly summarised the experience of having previously been employed by kulula saying, "We learnt a lot of operational and technological parts ... but we had airline experience and not just kulula experience, so we could apply a wealth of experience. Operationally we had a big competitive advantage".

In response to the question what could have been done differently to make for a smoother launch experience, two primary responses were:

The first advertising and marketing campaign was sub-standard. The second phase of the initial launch material became offensive rather than controversial. 1time eventually sacked the advertising agency. Public awareness was inadequate, and the airline is still not widely known, almost two years later. A different airline name could potentially have been more effective. The company logo was nondescript.

"Price capping" (Maggs, 2004; Rondganger, 2004) had worked for 1time initially, however they soon realised that their profitability could have increased sooner had they not taken this approach. When other airlines could charge a premium during peak seasons, 1time was unable to maximize their margins due to the advertising stance they had undertaken.

Interviews with the general public revealed that many people were still unaware of 1time's existence. Carrying its 1 000 000th passenger within its second year of operation the airline has been very successful. However, it appears that unless people travel often or live in a city from which 1time operates, the general public has not been well informed. One of the interviewees resident in Johannesburg admitted that she would never have heard of 1time had it not been for a friend who had recently travelled on the airline. She reported that she had never seen a 1time television advertisement, heard one on the radio, or witnessed any signage or promotion.

When discussing the marketing strategies of 1time with management it was evident that no-one was satisfied with their previous marketing efforts through Grey Worldwide. Most of the respondents were also not happy with the airline's name, "1time". On start up of the airline it was, for example, discovered that passengers battled to access 1time's website as they did not know that the "one" in "1time" is a numeral and not the three-letter word. Besides the logistical problems, the name also lends itself to a fair amount of abuse by rivals. The marketing issue is a sore point for most of the management team who acknowledge that from the outset, not enough was done to create public awareness to promotion for their new

airline. Kulula, on the contrary has an excellent brand name and clever advertising which are aired on television and heard on the radio regularly throughout the year.

4.4 Porter's Five Forces Analysis

Michael Porter (1980) has identified five forces within an industry environment which have a significant impact on a company. The spectrum of competitive analysis is broadened by these five forces: the threat posed by new entrants, the bargaining power of suppliers, the power of buyers, the threat of substitute products and rivalry among competing companies (see Figure 7).

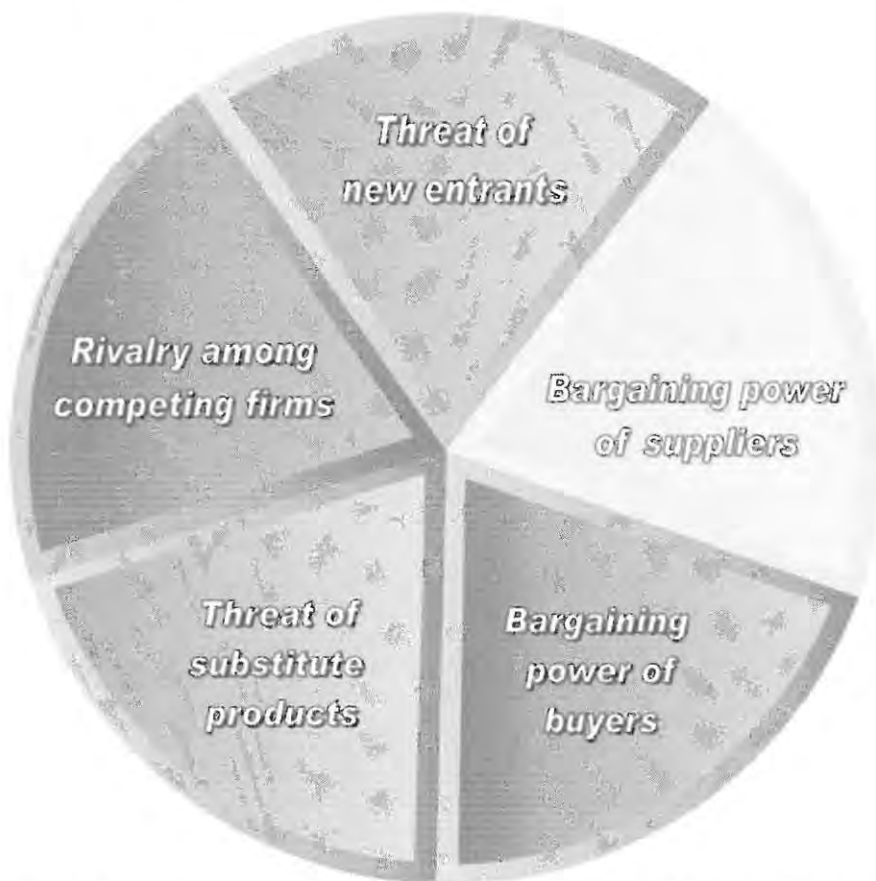


Figure 7 The Five Forces of Competition Model (Hitt, Ireland and Hoskisson, 2003:57)

In research interviews, 1time management were asked to rank the Five Forces in terms of the strength of their influence on 1time (Table 7). Substantial time was spent by those being interviewed to deliberate over these forces as the strength of each factor can have a seriously detrimental effect on the airline if expressed negatively.

Porter's Five Forces Analysis: The impact each of the 5 forces has on 1time Airline	
1 = potentially greatest impact to 5 = potentially lowest impact	
1	The threat of new entrants
2	Rivalry among competing firms
3	Bargaining power of buyers (consumers)
4	Bargaining power of suppliers
5	The threat of substitutes products

Table 7 Ranking of Porter's Five Forces

4.4.1 Threat of new entrants

Ranked first out of five, the threat of new entrants seems to be foremost in the minds of 1time's management team as having the biggest potential to impact the business. From most of the interviews it was established that the possibility of a completely new start up (as 1time has achieved) is not a great threat. A marked threat is the possibility of SAA starting up a separate low cost division which will compete directly with 1time and kulula. SAA's parastatal status and associated financial backing by the South African government makes threat much greater than that of any other airline. 1time management feel that SAA have no regard for business accountability to the extent that, should a low cost division be undertaken and prove to be unsuccessful, it will be of little consequence to SAA as the Department of Transport will simply "bail them out".

4.4.1.1 Barriers to entry

On entering the market as a low cost airline, 1time had to overcome a number of challenges. Similarly, potential independent new entrants would also need to overcome these obstacles in order to penetrate the market.

1time owns two MD82 aircraft and leases three DC9 aircraft from Millionair Aviation. One MD83 is leased from Safair. 737-200 aircraft are hired as and when required should 1time wish to add extra flights onto a specific route for a peak season, or if any of the other aircraft required maintenance.

With 1time as the new entrant, they set up the booking engine for online reservations and established the call centre for telephonic flight bookings. The call centre manager, who was involved in the start up of kulula.com before joining 1time, was pleased to have learnt from the trial and error at kulula when setting up the call centre. She stated that it took them about one month at 1time to achieve what had taken four or five months at kulula. 1time air tickets

can be purchased via the Internet, call centre, travel agent (who would then charge a booking fee as no commission is paid to travel agents by 1time) or by booking directly at the ticket sales office at the airport. All these channels of distribution are easily accessible to the general public and not too costly to implement.

4.4.2 Intensity of rivalry among competing firms

Rated second out of five, 1time's management perceives the intensity of rivalry among competing firms as having a rather strong impact on the company. In November 2003, about three months before the start up of 1time, the CEO, Glenn Orsmond, who until two months ago had been the financial director of BA/Comair and kulula, announced that 1time's fares would be the lowest in the market (D'Angelo and Von Lieres, 2003). Although Novick of kulula retorted that his airline's tickets would remain lowest, Orsmond insisted that 1time's fares would show that kulula's are not the cheapest possible, adding that, after the cheapest seats had been sold, some of kulula's fares are as much as R1 020 one way between Johannesburg and Cape Town. Orsmond maintained that kulula's success had been achieved on the back of BA/Comair, of whom British Airways is the parent company, whereas 1time is an independent, truly low cost airline.

Rivalry between domestic airlines has been intense since the end of SAA's monopoly. Since most of 1time's management were previously employed by kulula the relationship between 1time and kulula is particularly strained. 1time's CEO, Glenn Orsmond, previously held the position of financial director at kulula. Subsequent to Orsmond's move, five senior staff members soon followed (van Niekerk, 2003). Adding fuel to the fire, a British Airways communications person distributed an unsolicited email message containing unsubstantiated and fallacious gossip about 1time to a number of South Africa's largest newspaper publications. The email carried British Airways stationery, making the notification appear official. On discovering the email, 1time immediately approached the email correspondent, who subsequently sent a email message of apology to say she had acted without authority and that the message had contained errors (Business Report, 2005a).

To further intensify competition and tactical actions and reactions, 1time introduced a limited number of fully inclusive fares at R1 per person one way between Johannesburg and Port Elizabeth effective from 18 March to 1 June 2005 (d'Angelo, 2005a). Apart from this special introductory fare, 1time launched this new route at a fare of R279 one way, undercutting the bus companies who charged R330 at the time. In response to 1time's announcement, Stuart Cochrane, of BA/Comair acknowledged that 1time's launch fare was 40% lower than theirs.

Cochrane added that their fare could be lowered and that the airline was in the process of considering the option (d'Angelo, 2005a).

4.4.3 Bargaining power of buyers

Ranking it third out of five, 1time management rate the bargaining power of buyers (customers) as having an average impact on the company. Until the start up of 1time, the buyers, or customers, did not have much power at all. While the premium carriers were charging exorbitant prices, the low cost subsidiary to Comair, kulula, offered reduced fares. The consumers of airline tickets now have a greater variety to choose from, with many people now finding air travel affordable due to lower fares being made available.

Both 1time and kulula service the lower end of the market. These passengers, many of whom are travelling by air for the first time, are very price sensitive and will switch airlines for even miniscule saving, rather than being loyal to any one airline.

The following interview data, obtained from twelve random interviews at various airports illustrate the way in which the bargaining power of buyers is influenced by consumer perceptions:

- 10 out of 12 travellers will choose the cheapest airline if they are paying for the ticket, with the balance opting for SAA (for which their companies pay) in order to receive frequent flyer miles.
- 7 out of 12 of the individuals have flown on 1time before, while the remaining 5 have not even heard of the low cost carrier.
- Of the 7 who have flown on 1time before, all welcomed the new carrier saying that it was healthy for competition.
- Of the 7 who have flown on 1time before, 4 did not understand how or why 1time saves on costs, but were not concerned provided the costs remain low. Of the remaining 3, 1 fully grasped the concept, while the other 2 had a fairly good understanding of how costs are reduced.
- All of the 7 who have travelled on 1time before were very satisfied with the level of service received.
- "Price" was most often cited when questioned about 1time's competitive advantage and success.

- Most individuals perceive low cost carriers as a quick, convenient mode of transport and all were pleased that it is now often cheaper to travel by air than by other means.
- Questioned on sustainability, individuals suggest that 1time maintains competitive pricing and consistent service levels and invests in advertising and marketing campaigns.

1time management was asked to comment on service quality dimensions relevant to their operations. Mixed responses were received from most of the management team who recognised that 1time offers good service, but perhaps not at the standard which it wants to deliver. The airline is in the process of producing a standard specification for each stage of the 1time experience to ensure that all aspects of the process are pleasant and seamless. To evaluate their service levels, 1time management intend employing “mystery travellers” who will advise them of the areas in which the service is lacking. Management is however concerned that, once the product inspection is completed, employees may lose their “personality”. As commented by operations manager, Graham Paterson, “You can get consistency fairly easily by being procedural and rule-bound, but then you’re not necessarily going to be consistently good, you’re just going to be consistent”.

As a testimony to their good service, 1time won the 2005 Feather Award presented by ACSA for best low cost airline in Port Elizabeth, Durban and in Cape Town and for the second consecutive year the awards for Durban and Cape Town. The Feather Awards are based on four independent passenger surveys conducted throughout the year. The survey also investigates customers’ overall perception of the airline and their overall experience.

1time is currently also looking at re-designing their entire booking system, from the online reservations system through to check-in, in an attempt to enhance the ease of use for customers and ensure a seamless process.

For some travellers using the routes at the outstations (Port Elizabeth, East London, George and Durban), flight times may not be as convenient as on SAA or one of the other premium carriers. However it remains up to the client to choose which is more important: the convenience of price or the convenience of time.

4.4.4 Bargaining power of suppliers

Ranking fourth out of five, it would appear that 1time’s management seems less concerned about the potential influence of the bargaining power of suppliers on the company. Management however revealed that suppliers are a significant player in their operating environment, however it is relatively difficult for a smaller airline player to have any influence

over the (mostly) monopoly suppliers and as such, 1time have accepted these odds. At entry level, airline suppliers are an essential part of the foundation of the start up. Due to the string of airline failures in South Africa, the suppliers are understandably very risk averse. Large deposits were sought by the Airports Company of South Africa (ACSA), Air Traffic and Navigation Services (ATNS) and the fuel companies for their services and products. According to 1time's commercial manager, the airline initially had to pay for fuel in advance and no credit was extended at all. Backed by the powerful British Airways, Comair, has an average credit of 45 days worth of fuel. With an average monthly fuel bill of R15,2 million 1time claim that, even if they had the extended credit option of 45 days, they would opt not to use it due to the interest that would be charged.

An example of the power of suppliers concerns the allocation of space at airports. ACSA had to create space for 1time at every airport they utilise for check-in counters, ticket sales offices and other airport facilities. Although Johannesburg International Airport's domestic terminal was only twelve months old when approached by 1time, ACSA had already run out of space, leaving 1time at number thirty-four on the waiting list for additional facilities. several years after 1time's launch. Entrant influence and supplier requirements seem to be varying in different geographic locations. The greatest difficulties in acquiring space and overcoming cooperation barriers were experienced at George and Port Elizabeth airports. 1time were however delighted by the ACSA offices in East London and Durban, who were welcoming to the new airline and helpful in setting up the airline's new route.

A recent example of the impact of fuel suppliers was evidenced when the airports ran out of fuel on Sunday, 11 December 2005, leaving airlines and passengers stranded (Reporter, 2005). Another recent example of the power of airline suppliers was the closure of Cape Town International Airport on 27 November 2005, following the discovery of a hole on the runway. All flights to and from the airport were brought to a halt for repairs to the two runways at the point of intersection. All the flights were affected, causing backlogs in air traffic which only began clearing up on Tuesday, 29 November 2005 (d'Angelo, 2005e). The closure of the airport resulted in substantial losses to all airlines using this airport. ACSA did not offer any compensation or apologies to their clients, the airlines or to the passengers who were inconvenienced.

1time uses a company called Equity Aviation for most ground handling services including:

- baggage handling,
- passenger assistance (wheelchair requests, etc.),
- passenger check-in,
- aircraft push back, and
- aircraft stairs.

1time's operations manager is currently in the process of investigating the cost-effectiveness of outsourcing these activities to Equity Aviation and is considering whether 1time now has the economies of scale to insource these activities in the larger centres in order to reduce costs.

4.4.5 Threat of substitute products

1time's management seem to be least concerned about the threat of substitute products impacting on the company as managers rated this force last out of five. Substitute products do not pose a threat to 1time. The airline's fares are so low that flying has become as affordable as surface travel. In January 2004 the ticket price from Johannesburg to Cape Town on luxury coach, Greyhound, cost R400, while 1time was offering their lowest airfare at R371 (Rondganger, 2004a).

For shorter distances travellers may prefer to drive for the sheer convenience of having a vehicle available when in the destination city. Once again, travellers may need to calculate the cost advantage between driving over the time advantage of flying and hiring a vehicle in the destination city.

4.4.6 Conclusion

Rivalry in the South African airline industry is intense. Each competitive force is strong, except perhaps for substitute products. Substitute products do not pose a substantial threat to the airline as fares are relatively comparable, yet the convenience of travelling by air outweighs the time expended on surface travel substitutes. Suppliers consist of parastatal institutions who have a monopoly, (e.g. ACSA, ATNS), as well as fuel companies who are reluctant to negotiate reductions in rates. As the purchase of fuel is a necessity, these suppliers present a strong competitive force. Buyers have been given a greater selection of travel products from which to choose. They have not been found to be loyal and are increasingly price sensitive. The threat of new entrants is the most immediate threat with state-owned SAA considering launching a low cost subsidiary. SAA is currently 1time's strongest competitor due to the power of financial backing from government in times of crisis. Rivalry among incumbents is ongoing with price wars creating lower margins.

In conclusion the Five Forces Analysis has revealed that the threat of new entrants is considered to be the greatest force to potentially hamper the competitiveness of 1time Airline. This threat is a real possibility following the announcement that SAA will launch a subsidiary low cost arm. Until the actual proposal for the new low cost airline is put forward it is assumed that the subsidiary will, like SAA, be funded by government. This prospective government subsidy heightens the level of the threatening force as 1time is privately owned and will not have ongoing access to capital regardless of profitability. There are a limited number of suppliers within the aviation industry in South Africa thereby making these limited traders difficult to negotiate with. Suppliers are rigid and do not bargain easily. The power of buyers (or consumers) is also regarded as a significant force on 1time's sustainability. Consumers of low cost air travel are not brand conscious. Their purchasing decision is motivated primarily on price. Notwithstanding 1time's current ability to sell most fares lower than those offered by competitors, the threat of new entrants in the form of a government-subsidised rival promises to have a severely damaging effect on 1time's profitability and sustainability should the new incumbent under-cut fares to a unsustainable level for an extended period of time. Substitute products do not pose a powerful threat to 1time Airline. Substitutors can be turned into complementors to create value added services for 1time. It is doubtful however, that alternative modes of transport are more desirable than travel by air. Rivalry amongst competitors is on the increase. It does not appear that the severity will abate within the near future.

4.5 The Economy

The study of the macro-environment presented seven questions (Thompson and Strickland, 2001:76) which are used as an industry and competitive analysis tool. Researching the answers to these fundamental questions creates a deeper understanding of the industry, competitive forces, environmental factors and other business concerns which should be considered to determine the industry's attractiveness and financial forecasting. The insights gained should be used to plan strategically and formulate an overall industry perspective from a broader context. These questions were addressed in Chapter 2, paragraph 2.2.1 to 2.2.7 and are summarised below.

4.5.1 What are the industry's dominant economic features?

GDP growth in South Africa is evidenced. This economic upswing results in an increase in disposable income. According to 1time's CEO and as evidenced by a study conducted by the Boston Consulting Group (2006), this trend commonly translates into increased

passenger numbers. The strengthening of the Rand benefited 1time when purchasing aircraft (in US Dollar terms) from the over-stocked US market.

4.5.2 What is the competition like and how strong are each of the competitive forces?

Rivalry in the South African airline industry is intense. Each competitive force is strong, except perhaps for substitute products. Substitute products do not pose a substantial threat to the airline as fares are relatively comparable, yet the convenience of travelling by air outweighs the time expended on surface travel substitutes. Suppliers consist of monopoly, parastatal institutions (e.g. ACSA, ATNS) as well as fuel companies who are reluctant to negotiate reductions in rates. As the purchase of fuel is a necessity, suppliers present a strong competitive force. Buyers have been given a greater selection of travel products from which to choose. They have not been found to be loyal and are increasingly price sensitive. The threat of new entrants is the most immediate threat with state-owned SAA considering launching a low cost subsidiary. SAA is currently 1time's strongest competitor due to the power of financial backing from government in times of crisis. Rivalry among incumbents is ongoing with resultant price wars consequently generating lower margins.

4.5.3 What is causing the industry's competitive structure and business environment to change?

The advent of low cost carriers into the South African market has created a dramatic transformation in the mode of passenger travel in South Africa. The low cost airline business model requires a lower cost base. This was achieved by 1time by procuring aircraft at lower rates than their competitors due to the overcapacity of aircraft in the US following the events of September 11. The strength of the Rand added to the impact of the changing competitive structure within the airline industry. GDP growth has benefited consumers by generating more disposable income. With greater disposable income, consumers may decide to spend more on luxury purchases such as travel. The success of low cost carriers globally has changed the perception of full service carriers by recognising the need to reduce costs in order to remain competitive.

4.5.4 Which companies are in the strongest/weakest positions?

South African Airways has been dominant in South Africa for many years. The airline has an obvious advantage due to the strength of their financial backing by government. SAA's highly successful frequent flyer programme, Voyager, is a significant barrier to entry experienced by rivals. SAA passengers perceive great value in the programme as they accrue miles on each flown ticket and once sufficient miles are earned, a complimentary

ticket is offered to the passenger – excluding airport taxes. SAA airport taxes amounted to R394 for a return journey simultaneous to 1time's airport taxes costing R84 for the same flights (Mametse, 2005). 1time's promotional and seasonal fully-inclusive fares have in fact been lower than SAA's airport taxes alone. Voyager members however, are reluctant to switch carriers. The greatest challenge is that many companies cover the cost of ticket purchases for their employees' business travel. Employees often opt for SAA tickets in order to qualify for a free ticket for personal leisure travel in the future. Many corporate institutions have recognised the need to lower their expenses. With travel being the most controllable budget expense there has been a trend to use low cost airlines and bed and breakfast establishments rather than hotels. SAA holds a dominant position in terms of market position and capital.

Arguably, the weakest positions are held by 1time and Nationwide as both airlines are privately owned and therefore cannot rely on financial backup in times of crises. Although Comair and kulula do not enjoy SAA's financial strength from government, Comair is a subsidiary of British Airways, with kulula being affiliated to Comair. This affords both Comair and kulula financial strength.

4.5.5 What strategic moves are rivals likely to make next?

1time, together with kulula, have managed to grow the market by offering a low cost service. 1time's launch forced prices down even further than had been experienced when kulula was the only low cost airline in South Africa. With all airlines now compelled to reduce their margins to remain competitive, 1time has shaken up the industry. Price wars were sparked and rivalry intensified, yet 1time has prevailed throughout the onslaught.

If SAA were to introduce their low cost subsidiary, it is uncertain whether 1time would survive an ongoing fare war. 1time will need to remain competitive or passengers will opt for alternative carriers.

The Value Net as described by Brandenburger and Nalebuff (1995), suggests that sometimes the most valuable service a company can offer is creating competition. The theory narrates that people in the takeover game have long understood the art of getting paid to play and so not to give in for free. A potential strategic move by a rival may at this stage be to offer to purchase buy 1time. This may put a damper on the fare wars that have been raging and diminish the intensity at which the airlines compete. A move of this nature is possible from either SAA or kulula. Nationwide is a full service carrier and it would take considerable restructuring for the separate business models to merge. Comair is also a full service carrier and already operates their low cost subsidiary, kulula. Should there be such a

strategic move by the Comair / kulula alliance, kulula could merge their business model with 1time's with relative ease. However, given the intensity of the relationship which exists between the two airlines, restructuring of human resources will be critical to their future success. Kulula have a strong brand and a buyout of 1time will add to expansion of destinations and frequency of flights, thereby increasing passenger volumes and return to shareholders. Like kulula, SAA is in an ideal situation to purchase 1time. SAA would then simply need to rebrand the airline as SAA's low cost subsidiary rather than build the venture in its entirety. The advantage to SAA is that the low cost airline is already in operation with the necessary infrastructure, staff requirements and low cost base. As such, SAA can avoid having to formulate a new start up airline from scratch.

For the rival airlines, a complete buyout would likely be the most lucrative alternative. However, a strategic alliance may also be considered. The only likely rival to successfully manage a partnership agreement with 1time, is kulula, due to the low cost model already being in place

4.5.6 What are the key factors for competitive success?

Competitive success is achieved by developing and maintaining the competitive advantage of operating on the lowest cost base. With operating costs at a minimum, the airline is able to compete on price by offering the lowest fares to customers. As confirmed by 1time's CEO, price alone is not enough to keep customers. Acceptable service to meet (or exceed) customer expectations is necessary to retain the passenger pool.

4.5.7 Is the industry attractive and what are the prospects for above-average profitability?

An attractive industry is categorised as having high entry barriers and suppliers and buyers with little bargaining power, few substitutes and moderate rivalry (Hitt *et al.*, 2003). An unattractive industry is said to have low barriers to entry, strong bargaining power by suppliers and buyers, strong competitive threats from substitutes and intense rivalry among competitors (*ibid.*).

The South African airline industry can be classified as unattractive industry. Although barriers to entry are high as is apparent in attractive industries and contrary to unattractive industries, threats from substitutes are low, suppliers and buyers have a strong position to bargain and competitive rivalry is intense.

1time has successfully entered the airline industry by overcoming the high barriers to entry, formulating strategic alliances with buyers and sparking intense rivalry by initiating price wars.

4.5.8 Synopsis

Rapidly changing competitive environments call for more flexibility as well as the ability to mix more than one generic strategy.

1time successfully entered the South African domestic aviation market by exploiting their cost advantage to create a competitive advantage. Pursuing a cost leadership strategy, 1time differentiated a feature of their low cost leadership strategy by "capping" fares (Maggs, 2004; Rondganger, 2004). This first in South African airline marketing, was to cap their fares by advertising the highest fare only (which would only constitute 20% of the saleable seats), thereby ensuring that customers would never pay more than the advertised fare. A second, more effective feature of their pricing differentiation was to include all airport taxes to ensure passengers that the price they see is all inclusive. It is a common complaint of many travellers that advertised fares are not available when passengers try to reserve their seats and that many excluded, hidden costs are only revealed once passengers try to reserve their seat. 1time therefore implemented an Integrated Cost Leadership / Differentiation strategy.

This competitive strategy has been successful for 1time. However, once the fuel cost rose substantially during 2005, 1time management felt that they were beginning to lose the cost advantage they once had. 1time's financial manager explains that 1time has attracted the lower end of the market. While the top section containing LSM 7-8 of the population are very discerning, the lower end of the market are particularly price sensitive. With the fuel price increasing, they fear that travel prices will again move out of reach of the lower end purchaser. It would appear that airfares may need to increase to cater for the fuel price, and as such 1time could potentially need to appeal to a different market as they move up to a higher band of LSM.

However, all South African airlines, if not all airlines globally, are affected by fuel price increases. Kay (1993) argues that airline industry costs are governed by labour, fuel and capital costs. 1time directly targets labour and capital costs by maximizing fleet utilisation and therefore also staff productivity in their efforts to reduce costs. As a result prices are reduced, thereby increasing passenger load factors which ultimately reduce costs per unit of output. By increasing yields rather than focussing on maximizing revenue per passenger on each flight, profits are achieved by high capacity and low profit margins.

However, it is due to this feeling of having “lost” their competitive advantage that 1time has undertaken re-branding. Although the airline name has not changed, and the attractive red and yellow colour scheme still stands out on the runway, the logo has been refined to be larger and more legible. The previous advertising emphasised that 1time is a new, no-nonsense airline. Their slogan read: “Azikho lo nonsense, no bull, geen twak”. The marketing strategy aimed to educate the public that the airfares (then) offered in the market by incumbent airlines were not fully inclusive of all costs. The focus of the theme was to prompt consumers to seek truth, clarity and understanding of airline pricing policies. The campaign further advised consumers that the 1time experience would dispel any unpleasant, previously unstated additional costs at the time of payment due to 1time’s promotion of the truth, honesty, no hidden costs, no terms and conditions. By criticising rivals’ advertising and pricing strategies, the original 1time campaign may have imposed a negative overtone. Their subsequent rebranded marketing exercise focuses on the positive aspects of 1time such as decent legroom and comfortable leather seating, adding “Now wouldn’t you be willing to pay less for all of that?”. The new introspective 1time slogan reads “More Nice, Less Price”. The advertisements feature various caricatures and contain no inference to rivals.

The Integrated Cost Leadership / Differentiation strategy of 1time prevails as they continue to scrutinise service quality dimensions to outperform rivals.

4.6 Conclusion

The findings have covered all the research questions:

1. The airline was formed as a result of visionary leadership, entrepreneurship and personal motivation by the shareholders. Their drive was spurred on by three factors:
 - GDP growth and strengthening Rand;
 - access to reduced aircraft maintenance costs, and
 - collapse of aircraft values following September 11 due to overcapacity.
2. An integrated cost leadership/differentiation strategy was implemented. The competitive advantage of 1time has been their ability offer low fares due to their reduced operating costs and low cost structure. In addition the airline offers an efficient booking service and good travel product, often exceeding customer expectations.
3. From the research interviews it is apparent that effective use is made of the 4+2 formula for business success. The ranking of the formula's business practices however, conflicts with the discussion and information gleaned from interview subjects. The researcher

believes the discussion to be more informative than the ranking, however this can be questioned.

Similar to the case of Southwest Airlines, aspects of corporate culture as a core competence are also illustrated by 1time. An enthusiastic drive and passion is shared by 1time's CEO and management team to lead the airline to success.

Listening to the 1time employees during research interviews it is evident that most have a fervent dislike of kulula. No opportunity was available to interview kulula executives but from newspaper readings it seems apparent that the feeling is mutual, with kulula retaliating strongly against strategic tactics of 1time and vice versa.

Chapter 5 Recommendations and Further Research

5.1 Marketing and public awareness

1time needs to invest in more widespread (national) and ongoing marketing campaigns to maintain public interest in their product and brand. Greater awareness should be sought to inform and advertise their products and services. The airline will soon enter its second year of operation and it is evidenced that 1time is not yet widely known.

5.2 Airline alliance

It is vitally important that 1time does not become blinded by kulula's tactical actions and strategic moves and so lose sight of the greater industry environment. With SAA threatening to introduce a low cost carrier of their own, lessons should be learnt from game theory to formulate and execute effective winning strategies. It would be difficult to form an alliance, such as a code-share agreement, with a full service carrier due to the differing cost structures and business models implemented within the different companies. Code-sharing between airlines essentially means that Airline A may reserve seats on their code-share partner, Airline B's flights, but still issue the contract of carriage on Airline A; and vice versa. With the ticket being issued by Airline A, the contract of carriage is accepted by Airline A. Airline A would collect payment for the entire ticket and later reimburse Airline B for the sector/s flown. Agreements of this nature require that the airlines use the same interactive reservations system and in our market a billing and settlement plan (BSP) for payments is in place for such agreements and operated by the International Air Traffic Association (IATA). Code-share partnerships are not a viable option for 1time as set up costs for implementing IATA's Billing and Settlement (BSP) would be costly. 1time currently does not require an IATA license as they do not have a code-share or interline agreement with another airline, nor do they require billing through the BSP for any other reason. The only possible code-share opportunity for 1time domestically would be to align with kulula. However, due to the nature of the relationship between the two low cost services an alliance of any nature would most likely be resisted by the management of both airlines and require lengthy negotiations. It is doubtful that it would even be considered.

Negotiations between any of the incumbent carriers to set market related fares or to determine which routes one airline should operate over another is not permitted as this is in contravention of the Competition Act's Restrictive Practises contained in Chapter 2, Part A, 4 (1) b (i) and (ii): pg 14:

Restrictive Horizontal Practices prohibited:

- (1) *An agreement between, or concerted practice by, firms, or a decision by an association of firms, is prohibited if it is between parties in a horizontal relationship and if -*
 - (b) *it involves any of the following restrictive horizontal practices:*
 - (i) *directly or indirectly fixing a purchase or selling price or any other trading condition*
 - (ii) *dividing markets by allocating customers, suppliers, territories, or specific types of goods or services; or*
 - (iii) *collusive tendering.*

5.3 Capitalisation

The launch of a South African Airways low cost subsidiary appears imminent. SAA has attracted ongoing negative media attention for exorbitant reported financial losses, mismanagement and abuse of market dominance (Reuters, 2004b; Phasiwe, 2005; Business Day, 2005; Faniso, 2005a; Business Report, 2005a). Of concern to the incumbent airlines is that should the SAA low cost airline launch, the new low cost carrier may follow its parent company's example by potentially abusing their privileged position as a parastatal. As the SAA low cost carrier would most likely also be state funded the carrier could offer fares at below their break even point to attract bookings. Incumbent airlines may initially be able to match the SAA low cost's fares however it would not be a sustainable price war. While kulula has the financial support of Comair, and Comair in turn are a subsidiary of British Airways, it is doubtful that the JSE listed British Airways will continually fund an unprofitable and unsustainable airline. Similarly, 1time would also not sustain the continual sale of loss-making fares. Neither of the incumbent low cost airlines have the perpetual bank balance enjoyed by SAA, and potentially to be accessed by their imminent low cost arm.

Since the researcher was unable to view financial statements during the interview process 1time's financial standing could not be ascertained. However, due to the airline's fleet expansion and regular introduction of new routes (d'Angelo, 2005c; Business Report, 2005a; d'Angelo, 2005d; Barron, 2005) it is assumed that 1time maintains above average returns and continues to be a sustainable operation. Notwithstanding this postulation, it may be prudent for 1time to consider acquiring further resources by way of additional investors in order to strengthen their financial position prior to this looming advent. Regrettably however,

it is unlikely that private capital investment would be adequate to survive a disproportionate, ongoing price war at unsustainable fares waged by a subsidised rival. On contacting the Competition Commission to enquire as to the legalities of such an incidence, the researcher was refused comment based on hypothesis. Although most industry sources believe that the national carrier will attempt to distance itself from a potential subsidiary, few believe that this will in fact be the case. SAA may have negotiated special rates from various suppliers such as fuel companies and it seems impractical that their low cost subsidiary would not have equal access to same. SAA have their own maintenance company which would unfairly benefit their low cost carrier if they may use the services at below market rates (i.e. which their rivals cannot obtain due to lower operating volumes). Interviews with 1time management established that the airline supports an open market system and welcomes any competition, provided that the competition is fair and on a level playing field.

Should the SAA low cost carrier start up and the SAA position of dominance is abused by undercutting prices indefinitely, it may be impossible for all of the low cost incumbents to survive. In the event that SAA manage to drive competitors out of the industry, airfares will potentially increase and return to the levels achieved prior to 1time's inception. It may however become even easier for another new low cost entrant to penetrate the market after an industry collapse as an over capacity of aircraft will further reduce aircraft prices thereby giving such a new entrant an even lower cost base and greater low cost competitive advantage. Again however, the new entrant would have to compete with the state owned carrier.

Instead of antagonising and intensifying rivalry, the current low cost incumbents must realise that SAA is undoubtedly their greatest competitor. With the ongoing financial support of the government despite continued losses, SAA can and will reign supreme.

5.4 Strategic Planning

Strong leadership at 1time is not questioned. However, the airline needs to formulate and implement a cunning strategy to seek fit between resources and identifying opportunities. A clear concept of future strategic resources and competencies must be specified. The company should embark on strategic meetings to develop a vision and mission aligned to the goals of the airline. Argued by critics as "softer" business practices, the vision is an explicit description of what the business looks like and how it will be defined in the future while the mission is characterised as the integral purpose of the airline's existence. The airline must have direction and purpose in order to survive and be sustainable.

5.5 Further Research

The South African airline industry has exceptionally high barriers to entry largely due to South African Airways' dominance in the market, the power of the Voyager programme and their perpetual bank balance. Limitations are evident within this field of research and further research within the South African airline industry which may prove useful include:

- an investigation into predatory pricing;
- reasons for airline incumbent failures;
- strategic management application by SAA; and
- a comparative study of competitive strategies between 1time and kulula.

5.6 Conclusion

1time successfully entered the South African airline industry almost two years ago. Identifying the opportunity to enter the market at just the right time and equipped with a low cost competitive advantage 1time has managed to expand their fleet relatively rapidly and shake up the industry's competitive dynamics and cost structures to offer customers an alternative form of service premised on low prices and good service.

Despite an ineffective launch campaign, 1time has grown and impacted greatly on the growing domestic market and increased passenger numbers. One can only speculate how much more significant their success may have been had they sought efficient and effective marketing solutions prior to their launch in order to create widespread awareness.

The future of the South African aviation industry is uncertain. The following months will be critical in anticipation of the imminent arrival of SAA's low cost subsidiary and determining which airlines will survive the potential onslaught.

Chapter 6 Epilogue

Since completion of the research portion of this dissertation SAA have, as anticipated, launched their low cost division. SAA revealed in October 2006 (Mametse, 2006a) that their low cost subsidiary had been licensed. In response, 1time CEO Glenn Orsmond said that in accordance with the Air Service Licensing Council, it would be illegal for SAA's low cost carrier to promote a predatory pricing strategy. Orsmond added that the Competition Commission policies mandate that the new airline must operate at "arm's length" to SAA to ensure that fairness prevails. The 1time CEO warned that if the new low cost airline's airfares were lower than those of 1time, then the new SAA low cost carrier would run losses into millions of Rands (Mametse, 2006a).

An official announcement on 30 October 2006 (Mametse, 2006b) claimed that the new SAA low cost carrier, to be called Mango.com, would be headed by 30 year old Nico Bezuidenhout as Chief Executive Officer. Bezuidenhout informed travellers that flights from Johannesburg to Cape Town would sell for less than R200.00 per sector one way. Bookings via Mango's website and/or call centre commenced on 31 October 2006 prior to the inaugural flight on 15 November 2006.

Extensive media attention was (and continues to be) given to the controversial SAA low cost launch (see Appendix 5). At the end of November 2006, kulula's joint Chief Executives accused Mango of operating on a loss of R3 million per week. The claim is based on revenue from ticket sales on less than fifty percent load factors for the first eleven days of business not being able to cover fuel costs totalling approximately R60 000 per flight and aircraft maintenance expenses (Mantshantsha, 2006). An investigative journalist from Finweek revealed that the price of leasing 4 Boeing 737-800s will cost in excess of R16 m per month (Mantshantsha, 2006). Bezuidenhout refused to divulge Mango's lease costs but accused Finweek of "publishing inaccurate information" (Mantshantsha, 2006).

Despite the Competition Commission's approval of Mango's launch subject to the low cost's independent status, Orsmond claims that Mango is not operating at arm's length as it is using SAA aircraft, technical support, money and crews (Sobie, 2007). Notwithstanding Nationwide's statement that the move is based on passenger demands and does not make the carrier a low cost airline, Nationwide's announcement that they will begin charging economy class passengers on local flights for in-flight food and beverages from 16 January 2007 is perhaps an indication of a speedy, and necessary, industry response (Siebert, 2007). Given Nationwide's similar facilities and services, this may be the opportunity for 1time and Nationwide to formulate an alliance in the form of a codeshare agreement,

whereby the airlines can make reciprocal bookings on the partner airline's flights. With both 1time and Nationwide being independently owned, this may result in a favourable and successful association.

While the rest of the world's aviation industries fight for liberalisation and deregulation, SAA has control over the South African market by enforcing nationalisation of the local aviation industry. The launch of Mango has seen much controversy and many conflicting reports. It remains to be seen how successful the previously existing airline incumbents will be in overcoming the obstacles which may surface following the introduction of parastatal SAA's low cost subsidiary. Currently, the consumer is the biggest winner in this highly dynamic market.

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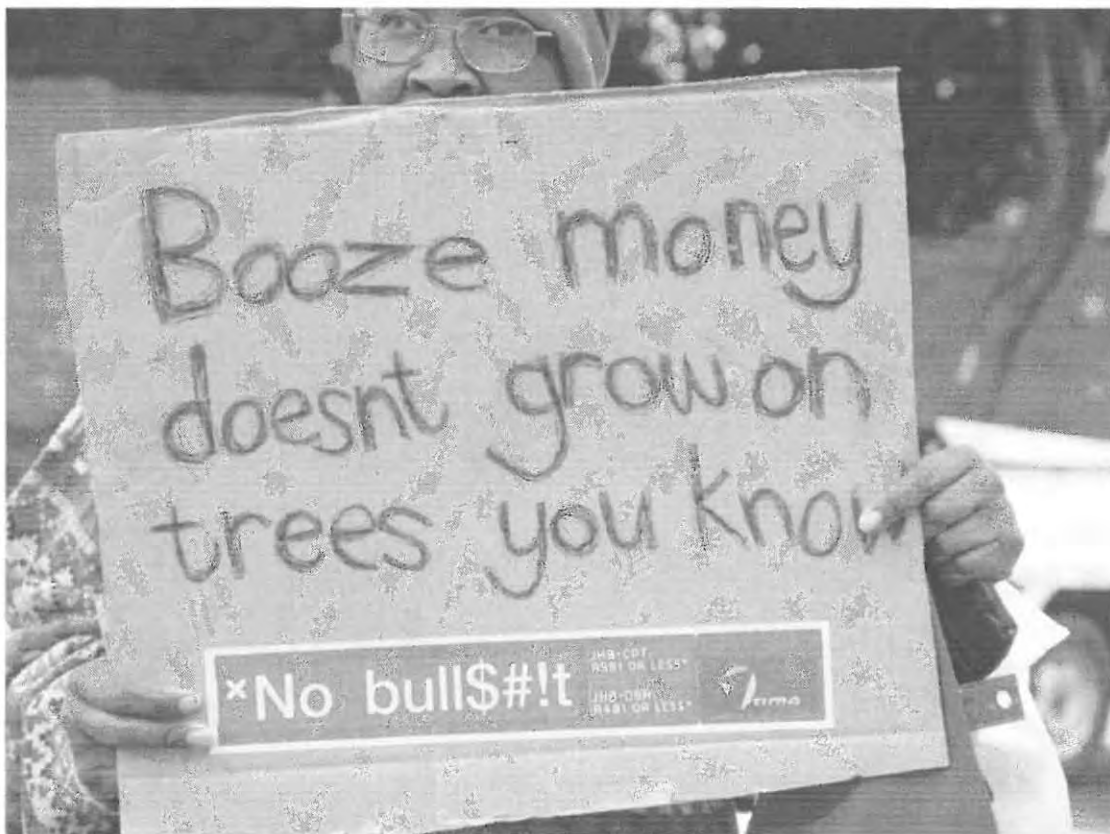
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Appendix 1: Examples of 1Time's "street marketing"



Appendix 2 Interview Questions:

1. Is 1time successful?
2. How do you measure success?
3. What motivated the start up 1time in this cluttered and competitive industry? What motivated you to leave a stable company to join the start up?
4. How would you characterize 1time's competitive strategies?
5. How strongly would you agree with each of the following as a source of competitive success (lickert scale: 1 = strongly agree 5 = disagree)
 - Build a strategy around a clear value proposition for the customer.
 - Deliver products and services that consistently meet customers expectations
 - Inspire all managers and employees to do their best
 - Promote cooperation and the exchange of information access the whole company.
 - Closely link the leadership team's pay to its performance
 - Apply new technologies to enhance all operating processes, not just those dedicated to designing new products and services.
 - Design jobs that will intrigue and challenge your best performers.
 - Enter new businesses that leverage existing customers relationships and complement core strengths.
6. Rank each of the following in order of importance in terms of their link to competitive success:
 - Strategy formulation
 - Strategy execution
 - Corporate culture
 - Organizational structure
 - Talent (recruitment and retention)
 - Leadership
 - Innovation
 - Mergers & acquisitions
7. To what extent has 1time's "second mover" status been an advantage or a disadvantage?
8. How does the **organizational size** influence decision-making in terms of competitive action? (Advantages and disadvantages compared to competitors)
9. Compared to your competitors, what are 1time's advantages and disadvantages in terms of the following **service quality dimensions**:
 - Aesthetics
 - Timeliness
 - Courtesy
 - Consistency
 - Convenience
 - Accuracy (correctness)

10. List who the companies are in each category:

Rivals
Substitutes
Buyers – customers
Suppliers
New entrants

How strong are each of these 5 forces:

1 = very strong

5 = very weak

11. What does 1time do to ensure that it **captures the most value and / or reduces the power of the other players** in terms of competitive strategies. Examples of things 1time does better or differently.
12. 1time has formulated alliances with Tempest for car rental and transfers. Can you **comment on** any other **alliances** (eg. Hotel groups, banks, loyalty programmes), and the impact of these alliances on 1time?
13. Having been part of Comair and instrumental in the startup of Kulula.com, **what lessons did you learn from that experience** to aid the startup of 1time?
14. Are there plans for further expansion of 1time?
15. Other than the usual low cost business model of outsourcing of all capital intensive activities and the trend to convert cost streams into revenue streams, does 1time have other methods of reducing operating costs?
16. Have you noticed a **public perception of passengers questioning the comfort of low cost traveling or safety standards**? If so, how have you managed to overcome these?
17. What other factors might have **contributed to success**?

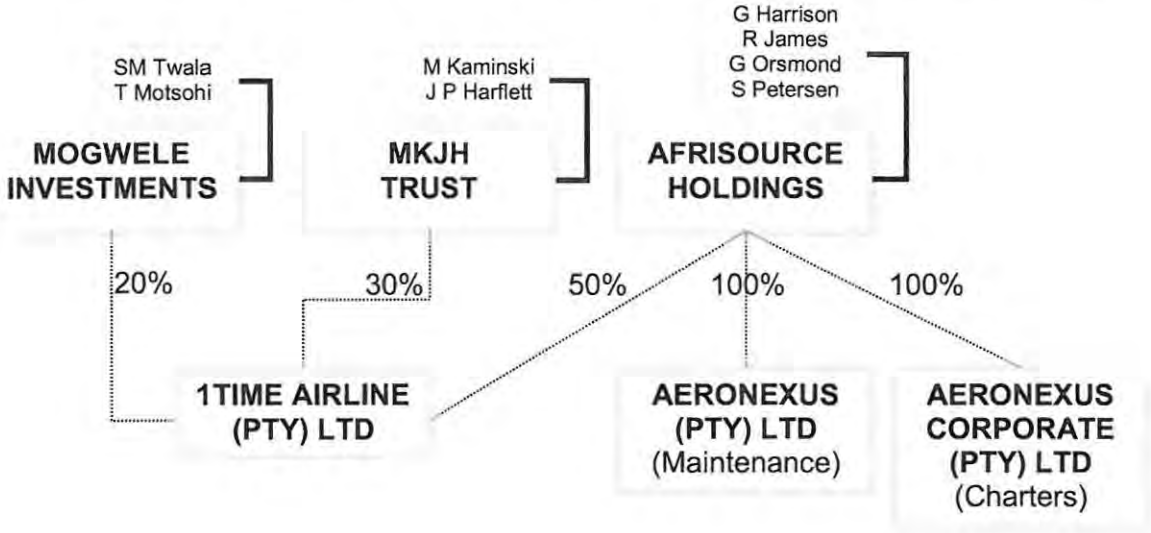
Appendix 2 Passenger Questions

1time Airline

1. Have you flown on 1time before?
2. Which other South African domestic carriers have you used?
3. Which is your airline of choice?
4. In your opinion do you think 1time Airline has been successful? If so, what in your opinion makes them successful?
5. What do you think motivated them to start up the airline? Do you think it was necessary for another South African airline to start up?
6. Do you understand how and why 1time is able to offer lower fares than many, if not all, of their rivals? If yes, please elaborate. If not, does this concern you?
7. What do you think 1time do to give them a competitive advantage over their rivals?
8. How strongly would you agree with each of the following as a source of competitive success (lickert scale: 1 = strongly agree 5 = disagree)
 - Build a strategy around a clear value proposition for the customer.
 - Deliver products and services that consistently meet customers expectations
 - Inspire all managers and employees to do their best
 - Promote cooperation and the exchange of information access the whole company.
 - Closely link the leadership team's pay to its performance
 - Apply new technologies to enhance all operating processes, not just those dedicated to designing new products and services.
 - Design jobs that will intrigue and challenge your best performers.
 - Enter new businesses that leverage existing customer relationships and complement core strengths.
9. 1time Airline is the first truly independent low cost carrier in South Africa. Kulula.com is a subsidiary of BA/Comair. 1time is however still perceived as a "second mover" in terms of low fare airlines in South Africa. To what extent do you think 1time's "second mover" status been an advantage or a disadvantage?
10. With reference to 1time Airlines, please comment on your perception of the following service quality dimensions
 - Aesthetics: the look and feel of the total flying experience from booking engine / call centre, to check-in, in-flight service, aircraft comfort, etc.
 - Timeliness: punctuality (compared to competitors)
 - Courtesy: of all staff you dealt with (booking, check-in, cabin crew, etc)
 - Consistency: if you have flown more than once, has your flight experience been the same on each flight
 - Convenience: of reservations, flight times, ticket changes, etc
 - Accuracy: of the entire transaction

11. What is your perception of low cost carriers?
12. What factors do you feel might have contributed / should be incorporated in order to contribute to the sustainability and success of the airline?

Appendix 4 1time Group Structure of Shareholding Companies



Appendix 5: Comments that have been noted in a number of publications by various industry sources

Aviation Expert	Quoted in Adams, 2006b, who "declined to be named"
Bezuidenhout	Nico Bezuidenhout, CEO of Mango.com
Griffiths	Peter Griffiths, Financial Director at Nationwide
James	Rodney James, Marketing Director at 1time
Kaiser	Hein Kaiser, Mango Spokesperson
Ngqula	Khaya Ngqula, CEO of SAA
Stratford	Oliver Stratford, CEO of the Commercial Aviation Association of Southern Africa (CAASA)
Walters	Professor Jackie Walters, chairperson of the transport and supply chain management department at the University of Johannesburg

Bezuidenhout	the relationship between Mango and SAA "begins and ends with a R100 million shareholders loan", but this does not mean it would not be able to apply for more loans (Adams, 2006a)
Ngqula	"These guys are going to be cash for us" (Adams, 2006b)
Novick	<p>"If they operate at arm's length and they're not selling below cost, I think it will be more than OK" (Hogg, 2006).</p> <p>Mango is likely to be a drain on taxpayers (Adams, 2006a)</p> <p>Asked SAA's CEO for public commitment to limit further taxpayer funding into the parastatal's low cost project (Moneyweb, 2006).</p> <p>"In this country we already have two state-subsidised carriers, SAA and South African Express, both of which are unprofitable." (Sobie, 2007).</p> <p>Complained that kulula pays around R250m in taxes each year and that R100m of taxpayers money would be used to subsidise losses for the new airline (Franz, 2006).</p> <p>SAA's new low cost should be called "the Taxpayer Express.com because it is subsidised by government and is insolvent to the tune of R7.3bn" (Rose)</p>

- Orsmond SAA's financial statements indicate that it is funded by government loans and without retained earnings, it is fair to assume that SAA is funding Mango in a highly competitive market with government funding (Rose)
- two issues: (1) SAA's new low cost has to operate at true cost, we don't want SAA subsidising it. (2) It can't sell below cost. (Mametse, 2006a).
- "If it prices its fares lower than us, then it will be running into losses of millions of Rands" (Mametse, 2006a).
- "Survival depends on who has the lowest cost. If the government doesn't interfere we'll be the survivor because we've got lower costs" (Sobie, 2007).
- the history of SAA doesn't inspire any confidence (3).
- "They can't match our costs and they're going to have to sell below cost to stay in the market. The taxpayer has just given them R100m. So I won't be surprised in a year's time if they ask for another R100m" (Hogg, 2006).
- "SAA is in a corner because it is losing billions and being subsidised by the government" (Adams, 2006a).
- James expressed concern over the R100m Mango had been given by SAA. "If we had that kind of money we could probably start three or four airlines" (News24.com, 2006).
- Stratford would like to see what the Competition Commission is going to do "about all of this" (The Star, 2006).
- Bezuidenhout expect to make a profit in first 18 months of operation (Hogg, 2006).
- "Our low fare costs are sustainable and thus, part of our every day offer of low cost travel to South Africans" (Franz, 2006).
- Kaiser airline's pricing and business model is "highly sustainable" (News24.com, 2006).
- "The offer on the website is a launch offer, but I can't foresee that the increase in price will be substantially higher" (News24.com, 2006).
- Novick "Mango will go vrot" (Hogg, 2006)
- kulula offer a telephone number for Mango to call in to get tips about running a low cost airline (Hogg, 2006).
- "The single issue that makes it a challenge is that it's state subsidised. If it was a private business, no worries at all" (Hogg, 2006).
- "The only thing that's different to this initiative is that this one is subsidised by the government, by taxpayers" (Hogg, 2006).
- "We're not sure why you need 2 years to become profitable" (Franz, 2006).

Orsmond	<p>"If you look at the SAA or the Mango management team, they've worked at SA for the last 5 or 10 years, some 20 years. So they've never worked for a profit in their lives. They've relied solely on government subsidies. So I'm not sure what's going to turn around their thinking or their mindsets and enable them to make profits now" (Hogg, 2006).</p> <p>"We don't see that. We've run their business model, so has Comair. If Mango sells our fares they'll lose R100m per year" (Sobie, 2007).</p>
Walters	<p>average ticket values should be sold at three times the current offer over the longer term to sustain the business (The Star, 2006).</p>
Bezuidenhout	<p>Mango will launch with two Boeing 737-88 aircraft leased from SAA but plans to operate at least 4 aircraft by the end of December 2006 (Hogg, 2006).</p> <p>The Boeing 737-800s will be flown by experienced but retired SAA pilots (Adams, 2006b).</p> <p>normal Boeing 737-800 seating configuration have seating for 157 passengers, Mango will seat 186 passengers (Adams, 2006b).</p> <p>aircraft will be maintained by SAA's technical services (Mail and Guardian, 2006).</p> <p>refused to provide details of the aircraft lease agreement or maintenance contracts with SAA other than to say that "market rates" apply (Mail and Guardian, 2006).</p> <p>Plan to expand to 10 – 15 aircraft within 5 years (Hogg, 2006).</p> <p>Aircraft are said to be 10% more fuel efficient than those operated by competitors.</p>
Novick	<p>SAA leased the aircraft at rates well above market average and SAA is covering the difference (Sobie, 2007).</p> <p>As an extension of SAA "you can bet your bottom dollar the cost structure isn't low" (Sobie, 2007).</p>
Orsmond	<p>acknowledges Mango's aircraft are more fuel efficient and have more capacity than 1time aircraft (partly because the seat pitch is 7.56cm shorter), but this is offset by 1time's significantly lower lease costs (Sobie, 2007).</p> <p>claims Mango's pay eight times more than 1time in aircraft lease costs (Sobie, 2007).</p>
Aviation expert	<p>"I don't think too many people will be happy flying with 70 year olds." (Adams, 2006b).</p> <p>SAA is the only airline in South Africa using Boeing 737-800s, therefore once the current team of pilots retired (again), Mango would have to recruit pilots from its parent company (Adams, 2006b).</p> <p>Questions whether SAA planned to bring in a genuine low cost airline or merely to attract market share (Adams, 2006b).</p>
Stratford	<p>cabins are going to be "jam-packed" (The Star, 2006).</p>

- Bezuidenhout launch price of R169 (all inclusive) per sector one way across Mango's network (Johannesburg – Cape Town and return; Johannesburg – Durban and return (Hogg, 2006).
pricing mixture starting from R169 (lowest fare) to increase in increments of R50 – R100 to a maximum fare of R999 (Hogg, 2006).
3 – 25% of airline seats will be available at the lowest fare depending on time of day and day of the week (Hogg, 2006).
business model based on 75% load factor (Sobie, 2007).
- Novick initial reports from OR Tambo International airport staff suggest that Mango's first flights were less than half full (Moneyweb, 2006).
- James "We're obviously going to play their game during the launch. We did the same thing (when we launched), then you've got to settle down and run the business and make a profit" (News24.com, 2006).
- Griffiths Not looking to reduce their fares "at the moment" (News24.com, 2006).
- Walters "If all tickets cost R200 (or less), it would be impossible for Mango to sustain itself, unless it gets some assistance from South African Airways" (Adams, 2006a).
- Stratford doubts Mango will be able to maintain the low fares currently offered (The Star, 2006).
suspects the airline will try to get market share with a big launch followed by prices "levelling off at a later stage" (The Star, 2006).
- Bezuidenhout envisaged aircraft utilisation upwards of 12.5 hours per day
With 4 aircraft, Mango hopes to operate 28 flights per day between Johannesburg and Cape Town (Mail and Guardian, 2006).
- Novick Oliver Tambo airport in Johannesburg cannot turn a plane around quickly. "We've tried it, we've done everything that we see possible to turn around a plane in 20 minutes, which is what you need to do to utilise those assets effectively" (Hogg, 2006).
"you can't operate a true low cost airline from an inefficient airport" as it is a "physical impossibility" (Sobie, 2007).
- Orsmond not achievable given congestion at the Johannesburg hub (Sobie, 2007).
all airlines agree that the greatest hurdle to achieving more double digit growth is the lack of airport infrastructure (Sobie, 2007).

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