BIZCOMMUNITY

Faulty business models, policies shrink air travel market, survival of airlines

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Beyond the prevailing harsh operating environment, the faulty business models airlines' operators often adopt may be responsible for the perennial low market penetration and short lifespan of local carriers in the country, findings by The Guardian has shown.

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Further findings by The Guardian also revealed that equally poor extant policies of regulators are not encouraging niche markets and other innovations to maximise the potential market at large. Rather, an environment is created where all operators converge on the small viable high traffic routes, with gross under-utilisation of available equipment and neglect of potential traffic.

The consequence is that less than 7% of the population travel by air till date, with perennial low turnover for operators and steady decline in terms of viability and lifespan of airlines.

Records made available by the Nigerian Civil Aviation Authority (NCAA) show that no fewer than 40 registered airlines, scheduled and non-scheduled, have collapsed in the last 15 years. Among the carriers are Associated Aviation, Allied Air, Hak Air, Kabo Air, TAT Nigeria, Belview, Sossoliso, Chanchangi, Sky World Express, Virgin Nigeria, ADC, Concord Airlines, IRS and Okada Air.

The high turnover in mortality rate, perhaps a record in global aviation, is often blamed on various reasons including unfriendly business environment, multiple charges, lack of government's support, non-viable routes and low patronage.

Indeed, Nigeria has about 180 million population and one of the lowest air traffic demands by population. For instance, the air travel sector in 2017 transported a total of 11.3 million passengers, which is a dip from 12.2 million that travelled in 2016, as shown by the NCAA's factsheet. By implication, less than 7% of the population travel by air.

Meanwhile, there are 26 airports scattered across the country with more than two-thirds of the 36 states, including the Federal Capital Territory (FCT), having at least an airport.

No economic sense

Station manager at Yola Airport in Adamawa State, Sheik Abdullahi, told The Guardian that it is not that people in Yola, Sokoto, Jalingo, Jos, Markurdi, Minna, Yenogoa, Ibadan, Akure, Maiduguri and so on, don't want to travel by air, being the fastest and safest mode of transportation. "But we all get frustrated having to sleep in the airport for two to three days waiting for an airline that may not even come," Abdullahi lamented.

The fact is that it makes no economic sense for airlines to fly to an airport where there is no guarantee of at least 80& load factor as the Lagos, Abuja, Port Harcourt and, sometimes Kano, routes offer.

Chief operating officer of one of the popular airlines narrates that it costs at least N800,000 to N1million to fuel a Boeing 737 aircraft to do a frequency of two landings. "Imagine if all you have as passengers are 20 persons going and 10 on the return with each paying N24,000 for a ticket (N720,000). Is that a profit or loss, on fuel alone?"

But route viability, as a determinant, was hardly the case in the 80s and 90s. Group Captain John Ojikutu (rtd), recalled that the defunct Nigerian Airways in its heydays strategically covered most parts of the country, including regional and international routes. For example, the national carrier, flew the B727 and B737 to Kano where it already positioned the Fokker F27 turboprop that would fly passengers destined to Sokoto, Kaduna and Jos twice daily and also to Makurdi and Yola. Besides, there were direct flights to Yola and Maiduguri from Lagos, once a day. There were 50-seat capacity F27 flights from Lagos to Ibadan and Benin too.

"Nigeria Airways was flying F28 aircraft mainly to other places like Enugu, Port Harcourt, Calabar at least twice daily. The airline had 32 aircraft and could, in addition, fly the west coast. In addition, Nigeria Airways was flying to New York, London, Frankfurt, Amsterdam, Rome, Jedda, Nairobi, and so on."

A faulty business plan

Ojikutu, the secretary-general of the Aviation Safety Round-table Initiative (ASTRI), said what has changed and where the current operators are getting it wrong is in a business plan that is tailored at flying all routes with Boeing and Airbus types of aircraft.

"You cannot fly all the routes at the same time. That is why I recommend that new airlines should start with a minimum of five aircraft and target about four or five routes. From Lagos, transport everyone to Abuja or Kano and from there use the smaller aircraft to distribute into other states. Flying big aircraft like Airbus without a full load is a big problem, you are losing money. And that is the major problem that I have seen here," Ojikutu said.

The fact is that at least 90% of airplanes in commercial operations in the country are the B737 series, which is considered fuel inefficient and runs at a loss without 90 to 95% load factor per flight.

Former managing director of defunct Virgin Nigeria, Capt. Dapo Olumide, said the B737 series are now rarely used on short-haul services because of their low fuel efficiency. "So, it is now like buy one, get one free. That is why everyone is buying it here," Olumide said.

Policies a problem

Apparently in agreement with Ojikutu and Olumide, Captain Roland Iyayi, however, stressed that there is no separating the faulty business models and wrong types of equipment from the regulatory policies that permitted them and allowed the industry to stagnate.

Iyayi said a business model is a dictate of what obtains in an operating environment but "if the extant policies do not support the kind of business one wants to operate, such is bound to fail irrespective of how wonderful the model is."

Iyayi, a former managing director of the Nigerian Airspace Management Agency (NAMA), explained that the policies of the NCAA are such that welcome all-comers "without due diligence of cross-checking business case assumptions in line with the realities and needs of the market".

New entries must have their niche market

He observed the new airlines in countries like Brazil, Ethiopia and even Ghana, are hardly allowed into an already established local market, to protect operating airlines from failing. So, new entrants must have their niche market.

"To do contrary is to end up with what we have here. You have a situation where all the airlines are concentrated on three routes, engaging in destructive competition because you are throwing too much capacity into the otherwise saturated market.

"These three routes give you 80% of the traffic. In realistic terms, what is the break-even factor that each airline would have? It all tells you that the NCAA does not see the wisdom to licence airlines to focus on niche markets like Minna-Abuja or Minna-Sokoto and so on."

Read the original article on The Guardian.