

**e-Commerce in an SME.
A case study of a South African low cost
or “no frills” airline.**

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Abstract

There are many situations where the Internet and the web may facilitate business processes. One of these are low cost or “no-frills” airlines where the Internet and the web have been instrumental in expanding their market potential as well as reducing their cost. In this industry the Internet and the web has become a fundamental part of airline strategy. The paper looks at the start up of a South African low-cost airline and describes some of the issues involved in getting it going. Emphasis has been placed on the role of Information and Communication Technology (ICT) in low cost airlines and in 1time Airline in particular.

Keywords: Low cost airline, SME, e-commerce, e-business, strategy, cost reduction, market expansion.

1. Introduction

This is a work-in-progress paper which considers the latest low cost airline (LCA) entrance into the South African market.

1.1 Objective of case study

The objective of this case study was to investigate how a start up SME used the Internet and web facilities as part of their competitive strategy. The focus of this case is how 1time Airline (Pty) Ltd has set up and used ICT as a central part of its strategy.

1.2 Background to the case study

This case study is interesting for a number of reasons. Firstly, Internet and web based businesses have not been particularly successful in South Africa as there have been a number of failures. Secondly South Africa does not have a good record of successful start up airlines.

No less than three airlines failed in South Africa over the past decade. Despite this, four entrepreneurs decided in 2003 to create an LCA using web and Internet Technology. This business is still in its early stages but the directors are confident that the organisation is firmly on the path to success. As an indication of this the directors point to the fact that 1time Airline reached their breakeven point within the first six months of operation. 1time Airline is currently creating market awareness in South Africa and are becoming a well-known web facilitated business throughout the country.

2. The research process

This case study research required multiple sources of evidence. Thus unstructured interviews were conducted, web searches were made, trade journals and newspapers were consulted and the companies website was used to make purchases of airline tickets. Mr Rodney James was the first contact with the company and he assisted in arranging subsequent interviews and supplying information. In addition using an established website evaluation tool, the 1time website (www.1time.co.za) was compared to Easyjet, Ryanair and Kulula.com. This evaluation tool uses a possible 80 evaluation criteria and the final assessment scores were; 1Time - 63, Easyjet - 63, Ryanair - 54, Kulula.com - 61 respectively. The 1time website compares favourably with other low cost airlines. Finally search engines were used to find the companies website and these found the company in positions one and two respectively (Google, 2005; Yahoo, 2005).

3. The economics of LCAs

Low cost airlines operate on three basic principles. The first of these is that the traditional airlines are not efficient in their use of resources and develop unnecessary cost profiles. This means that LCA's simplify their processes to reduce costs. The second principle is based on the

positive price elasticity of demand for air travel. At low prices aircraft operations will deliver much higher load factors than at high prices. This strategy is supported by yield or revenue management systems. The third principle is that a stream of income may be made from selling complementary products ranging from hotel rooms to car hire as well as in-flight refreshments and gifts.

It should be noted that central to the success of an LCA is the concept of simplicity. LCAs view their offering as short haul point-to point transport. Therefore there are no interline services or arrangements. There is no reservation of specific seats and there are no 'free' meals. Simple refreshments are sold during flights. This policy of simplification permeates the whole modus operandi of the LCA organisation.

4. 1time Airline (Pty) Ltd. (<http://www.1time.co.za>)

4.1 Creating the company

The company was registered in September 2003 and consists of three shareholders; Afrisource Holdings, an established aviation group who also own an aircraft maintenance company and holds 50% of the shares. The second shareholder is an ITC group represented by a business trust owning 30% trading as Prestige Computers and the third shareholder is Mogwele Investments, a black empowerment company owning the remaining 20% of the shares.

The founding members of 1time Airline had previously conducted market research to ascertain the size of the domestic air travel market in South Africa. This was found to be approximately 7 million domestic passengers and it was believed that South African Airlines (SAA) and the other operating airlines could not supply this demand in relation to low cost seats.

The inclusion of an ITC group as a major shareholder in the company is interesting and reflects the importance the founding members of 1time Airline place on ICT.

The first on-line booking was taken on 22 January 2004 and the first flight on 25th February 2004.

4.2 The operation of 1time Airline (Pty) Ltd

1time Airline operates from Johannesburg offering low cost air travel over five routes in South Africa. These are the main domestic routes in the country from Johannesburg to Cape Town, Durban, East London, Port Elizabeth and recently, George. The choice of name of the airline is interesting and was based on the owner's quest to select a name that would solicit interest but would not be a typical airline name. 1time is a South African colloquialism or perhaps more correctly, slang word meaning "for real" or genuine. The management team was looking for something new or fresh. Following on the theme of uniqueness, the aircraft color scheme is unusual and crew dress has moved away from traditional uniforms to smart casual light brown outfits. Open neck white shirts were selected for pilots who are also issued with leather jackets making for a distinct stylish and unique image.

The original idea for the airline came from Rodney James experienced in the aircraft maintenance business. He and his two partners, Sven Petersen and Gavin Harrison approached a colleague, Glenn Orsmond who was formerly the Financial Director at Kulula.com in August 2003, to team up with him to fill a gap in the South African low cost airline market.

4.3 Low cost air travel in South Africa

For many years air travel in South Africa was monopolised by SAA and their pricing structure put air travel out of reach to the average South African. SAAs only concession to low cost travel was to offer infrequent special deals. Air travel was deregulated in South Africa during the 1990's but as mentioned above at least three previous attempts to establish another airline failed. The entry of 1time Airline was welcomed by the public but not by the other carriers. In fact 1time Airline found it difficult to acquire adequate space for counters for their representatives in the major airports.

4.4 Low cost LCA models

According to the directors of 1time Airline, they carefully studied several examples of other LCA before launching 1time Airline. The websites and the operational characteristics of Southwest, Ryanair and Westjet.

Figures 1 and 2 represent the flight selection pages of 1time.co.za and Ryanair.com respectively.

The similarities between these web pages can easily be observed. In both cases, the web page design is basically the same with the essential information required laid out in a very similar way.

In launching the business the approach was to employ managers and directors and create a flat business structure. Thus they initially appointed three executive directors and six managers and encouraged a hands-on management approach. All these people were carefully picked as according to 1time Airline, intimate knowledge of the airline industry is essential to run a successful low cost airline. The Chief Executive Officer (CEO), Mr Glenn Orsmond revealed that 1time Airline planned a mix of 70% / 30% for online to Call Centre business. However the 30% referred to here actually include direct ticket sales at airports which would be minimal. All transactions are routed to the same booking system on the e-Commerce platform.

The 1time Airline systems have been designed to eliminate any further user intervention after a booking is made online. After online payments are processed, a booking confirmation containing flight details are available on the system. This is also automatically sent via email to the user. This approach supports the points made by Daniel *et al.* (2002) that e-Commerce is leading to the reshaping of customer relationships.

Figure 1. Website of 1Time.co.za

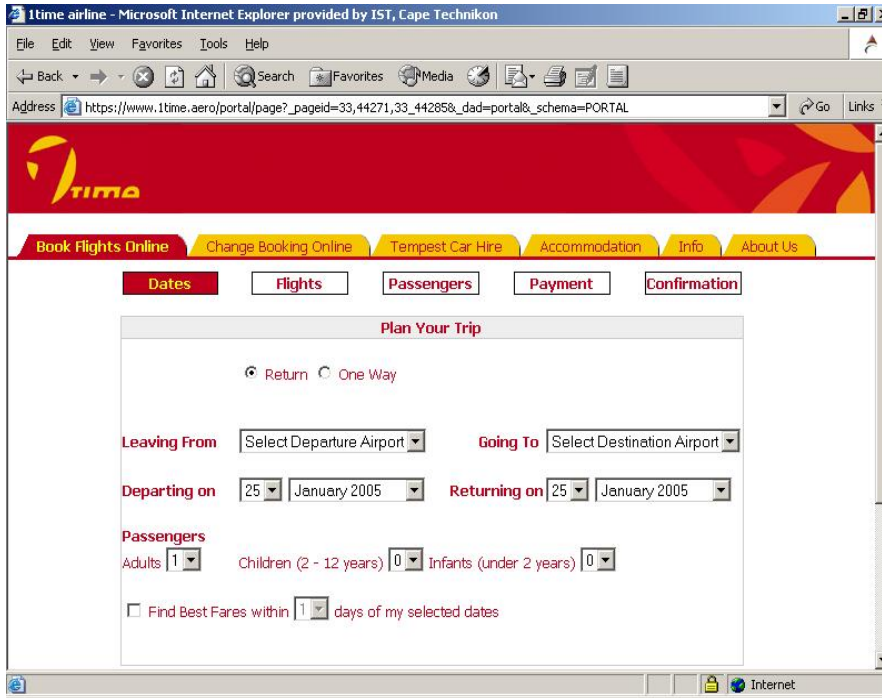
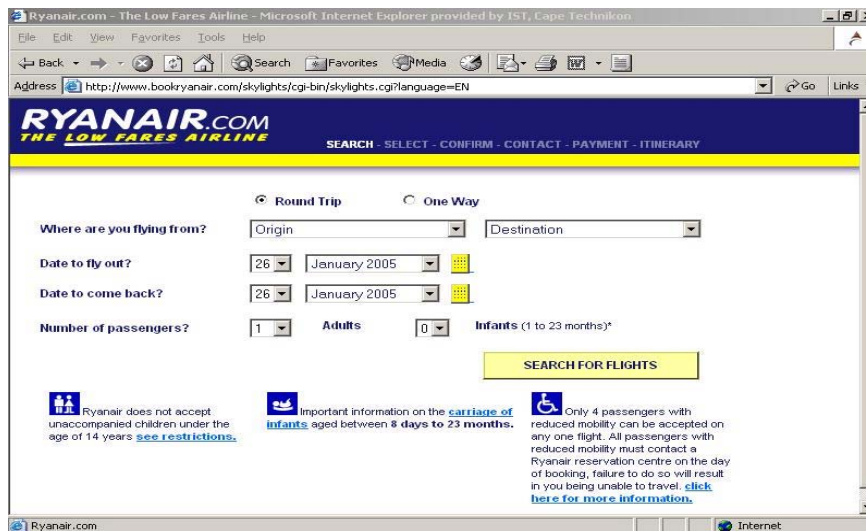


Figure 2. Website of RYANAIR.com



4.5 Fraud and security

Authentication is a serious problem identified and excludes clients not using credit cards. According to the CEO, payment by credit card has not kept up with user needs, although most of the technology exists. The Marketing Director reports that 1time Airline has experienced credit card fraud; in fact they have created a department that deals with that. To date 1time Airline have had no security breaks although a few hacking attempts were detected. A bigger issue to deal with are extremely cunning credit card fraudsters. At this stage this type of fraud is around R15 000 per month, much less than reported cases from other airlines. During September 2004, a fraudulent credit card syndicate from a neighbouring country was uncovered.

The ISP that hosts the Website, MTN, is extremely well equipped and professional. Backup procedures, emergency lines, emergency power, security and applications are all incorporated in their offering to the IT company responsible for the website.

4.6 Corporate clients and tourism

To cope with the request to handle and support corporate clients, 1time Airline provides a customised interface to access the web system for direct bookings at agreed preferential rates. This affords corporate clients access to the airline to make it cost effective for them to fly, even more frequently.

A similar arrangement is provided for the Toursim sector that gives them a corporate rate for a six-month period in order to sell airfares at a fixed rate to assist them in putting special travel packages together. International tourists use the system in the normal way unless working through a Tour operator linked to the system or Call Centre.

4.7 Early success

By 30 September 2004, 234 689 passengers had been carried and started levelling off at approximately 48 000 passengers per month. Less than a year after the first flights, the current fleet of three aircraft was expanded during December 2004 and February 2005 to six catering for the increasing volume of passengers.

According to 1time Airline, the Johannesburg / Cape Town route has grown substantially and are claiming that they have grown the market on this route.

Table 1 indicates growth figures for the first three months of operation in 2004. 1time Airline's market share of this route is approximately 10%.

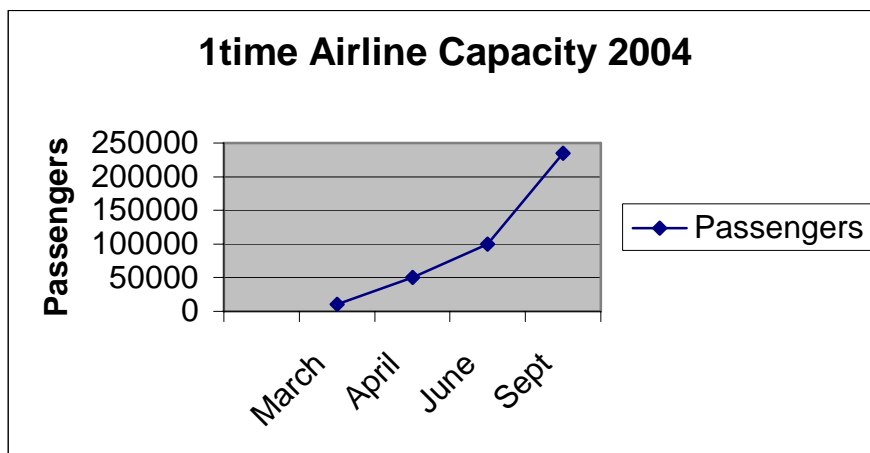
Table 1: 1time Airline Initial Market Growth

Months	1time Market Growth	Normal Market Growth
March	15 %	5 %
April	17 %	6 %
May	18 %	7 %

After less than a year of operation 1time Airline operates with average load factors above expectation, currently at about 12% higher than anticipated and well within budget. As mentioned above 1time Airline's break-even point was reached after six months and was achieved within the first six-weeks of operation. By September 2004, 1time Airline had only spent about 15% of their allocated marketing budget for 2004 and with the anticipation of two additional larger aircraft by December/February 2004 / 2005, more marketing was done.

Passenger numbers steadily increased as indicated in Figure 3

Figure 3. Adapted from website:1time, 2005..



4.8 The role of ICT in the LCA industry

ICT plays a major role in the operation of all airlines and especially in LCAs where it is both a low cost driver and a revenue generator. In fact over the last few years ICT has emerged from a relatively back office infrastructure issue to become a critical enabler of virtually the entire range of the airline business processes.

As a low cost driver ICT has been used as a major disintermediation device where it has been used to reduce if not entirely eliminated the travel agent cost layer. Travel agents obtain a commission from airlines, which typically ranges, depending on the sector and type of ticket between 5 and 8 percent. In addition airlines incurred other costs associated with servicing this sales channel. These included sales representatives and travel agents incentives. By using Internet and web based ICT the LCAs have by passed the travel agent and through the use of the e-ticket have eliminated the cost of the ticket coupon itself. It has been estimated that these cost reductions account for approximately 10-15 up to 20 percent of the total operating cost (Shoniregun, 2004)¹. In addition by servicing passengers through a website the LCA is able to build up a database of their clients and also they are able to track their destination preferences. This information is useful when planning marketing promotions.

The cost reducing aspects of ICT are overshadowed by the technologies ability to free seats on a flight and thus enhance revenue. By using the web to create a 24/7-travel shop where flights are offered at unprecedented low fares LCAs have enlarged the travel market and in so doing have increased their share of the travelling public. However the 24/7-travel shop is only part of the system. Behind this there is a yield or revenue management system. This system facilitates a strategy of differential pricing based on the demand for seats.

Besides increasing the number of tickets sold or passengers carried, ICT when used by the LCA's to sell tickets on a website, result in less delays in their cash receipts. This is of course beneficial to the company's cash flow.

¹ It is interesting to note that some airlines actually offer those purchasing a ticket online a price reduction of the normally published fare.

The other business dimension which ICT allows to be exploited relates to how the LCA sell complementary services and products. Ryanair, for example sells, hotel rooms, holiday packages, car hire, car parking, airport transfer, gift vouchers and insurance. They also operate a credit card business.

Besides these applications there are many more computerised activities which have been spelt out and mapped on to the value chain. (Buhalis, 2003). But this greater set of applications are applicable to any airline not only to LCAs.

4.9 The role of ICT in 1time Airline (Pty) Ltd.

In this case study four ICT issues appear to be of notable importance.

- The founding directors of 1time Airline deemed ICT to be so important to the success of their business that they sought, as shareholders, an ICT group. This was done because they knew that the success of an LCA is highly dependent on its website. Therefore high quality and fully reliable ICT support was essential to their plan. The directors of 1time Airline also knew that in the e-Business environment the ICT cost could easily get out of control and with an ICT group as a shareholder they felt that this was less likely to happen. The fact that founding directors sought out this ICT liaison demonstrates that ICT was a corner stone of their corporate strategy.
- The design of 1time Airline website was substantially based on Ryanair who they perceived as a major leader in the LCA industry. By following this approach 1time Airline was attempting to ensure that they did not waste time or financial resources in creating a highly innovative website. Many e-Businesses have failed because too much emphasis was placed on being entirely new with website ideas or being highly creative and not paying due attention to the electronic business aspects of the business.
- The use of the website to sell tickets has an immediately positive effect on 1time Airline's cash flow. As a start up business cash flow is critical. One of the main reasons that so many Dot.com organisations failed in the late 1990s and early 2000s was their

inability to generate cash and this critical success factor was not lost on the directors of 1time Airlines.

- 1time Airline has put in place a platform from which it can sell complementary services and products. At present they only offer car hire and hotel rooms. Nonetheless they are aware of the revenue generating potential of this side of their business.

5. Extending the Internet reach

In developing countries the availability of private personal computers is not as high as it is in developed countries. The number of homes with a computer and an Internet connection is low. There is also the issue of the number of credit card holders in South Africa which is also regarded as low. However the market penetration of mobile phones is relatively high. It is therefore suggested that 1time Airline will move to exploit this technology in the near future. 1time Airline is currently investigating ways of implementing this and also working in collaboration with the South African Post Office for possibly paying of airline tickets. There is also a suggestion of working with chain stores such as Woolworths or Pick 'n Pay for the same purpose.

6. Summary and conclusion

This case study describes the creation of a new business in a particularly challenging industry in South Africa. This industry, the airline transport industry has seen a number of failures in recent years. Despite this four entrepreneurs have decided that they can master the LCA industry with 1time Airline. Early indications are that 1time Airline is succeeding in its endeavours.

1time Airline is an interesting example of an Internet and web facilitated business. It is one where the successful management of their ICT is critical to the survival of the business. In fact the whole business concept relies on ICT performance. For this reason the founding directors of 1time Airline ensured a close relationship with a successful ICT group. 1time Airline developed a relatively simple website based on one which has achieved a high degree of success for another player in

the LCA industry. The company is cognoscente of the cost savings and the revenue generating potential of Internet and the web. In addition they have already begun to use this technology to sell complementary services and products.

1time Airline plans to utilize mobile technology as soon as it is economically viable for them to do so.

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