

COVID-19 and its impact on aviation in Africa – a perspective on airline crisis response and recovery

On 31 December 2019, the Chinese health authorities informed the World Health Organization (WHO) about several cases of a yet unknown virus in the region of Hubei. From there, the COVID-19 pandemic has spread across the world with over 470,000 infections until 26 March 2020 as reported by Johns Hopkins University. While Africa was largely spared the first wave of infections that struck China and Europe, the numbers in Africa have risen rapidly over the course of March. Today, more than 40 African states report infections. In response, several have instituted wide ranging travel bans (as in the case of Kenya and Nigeria) and/or strict regulations to limit social contact and community transmission (as in the case of Sierra Leone and South Africa).

The impact on the aviation industry in Africa has been severe, mirroring that of other regions of the world. For example, South African Airlines has suspended all operations during the country-wide 21-day lockdown until mid-April. Ethiopian Airlines, the largest carrier in the continent, has announced the suspension of over 50 routes and has estimated revenue losses of USD 190m in February and March due to the virus. Several smaller carriers have also seen dramatic service reductions.

“While the overall sentiment was still slightly optimistic during the Aviation Africa 2020 conference at the beginning of March, we will see serious further effects on the industry in Africa”, prophesies Catrin Drawer, Lufthansa Consulting’s Associate Partner and Head of Market Africa and Indian Ocean. Airlines in the region, which contend with poor margins, high operations cost, low cash reserves and operational and regulatory challenges at the best of times, are at severe risk. To address the crisis, airlines must act immediately, applying two perspectives: Crisis response and crisis recovery.

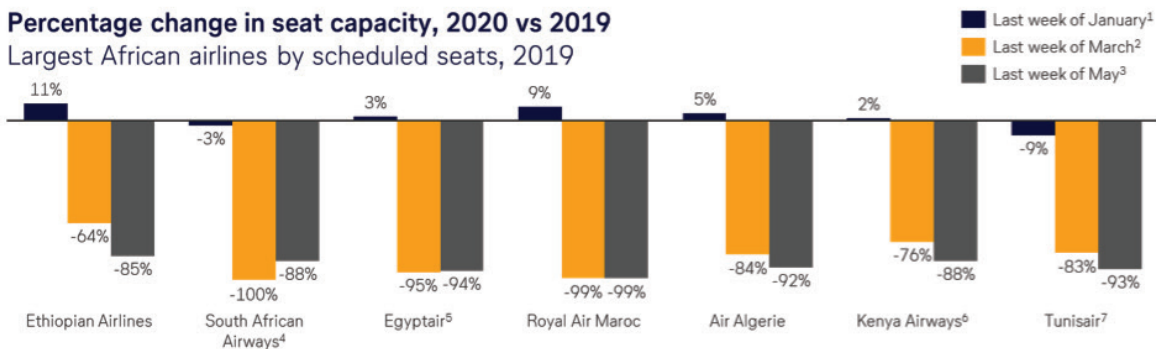
Crisis response: Survive

This is the phase when airlines need to take bold decisions, aggressively reducing cost while protecting and nurturing any existing revenue streams.

“Maintaining liquidity is the major priority, which requires a switch from the classical EBIT-focused steering to a cashflow-focused steering as soon as possible”, recommends Lufthansa Consulting’s Associate Partner Christine Weigner.

This steering logic is effective, because it triggers a strict focus on **cost optimization**. This takes many dimensions–targeted reduction of the underperforming

Percentage change in seat capacity, 2020 vs 2019
Largest African airlines by scheduled seats, 2019



1) Weeks starting 28.1.2019 and 28.1.2020 | 2) Weeks starting 25.3.2019 and 30.3.2020 | 3) Includes Mango | 4) Includes Air Sinai | 5) Includes Jambojet | 6) Includes Tunisair Express
Source: IATA Airport IS; CAPA



Authors | Auteurs
Lars-Michael
Wendel and Arvind
Chandrasekhar,
Lufthansa Consulting

routes ('stop the bleeding'), redeployment of inefficient aircraft and aggressive actions in operations and administrative functions. The grounding of aircraft assets or entire sub-fleets might also be called for. A thorough review of lease contracts, fleets plans and maintenance plans is recommended to ensure cash optimisation while using the downtime productively.

In parallel, airlines must apply **smart and flexible commercial steering** to make the most of available revenue opportunities, deploying emergency flight plans with the right frequency and capacity. Flexible and empathetic booking and cancellation policies are key to build trust, as customer-oriented communication measures also help protect revenue streams and maintain passenger loyalty.

To ensure fast and pragmatic decision making, it is essential that an airline establishes a dedicated **crisis committee**, which is equipped with the required expertise and decision rights to take bold calls. "Especially in Africa, we see several airlines with high structural cost", Catrin Drawer analyzes. "Reducing these costs with immediate effect to free-up liquidity will be a major challenge. Additionally, we need a mindset shift, especially at the many state-owned carriers. National carriers cannot rely on government bail-out, since the state is financially endangered as a whole in this crisis."

Crisis recovery: Thrive

"The biggest challenge is uncertainty", Christine Weigner summarises in a recently published interview. Even as the crisis rages, it is imperative that airlines initiate planning for a post-COVID-19 world in order to emerge in a position of strength. Lufthansa Consulting recommends

establishing a second group focused on the future of the airline.

A key task here is the development of **future scenarios**, understanding potential changes in market demand and competitive dynamics. A staged process with an optimistic, neutral and pessimistic scenario including the respective **financial modelling** is recommended to be best prepared. Each has different implications on the **fleet portfolio** and **commercial steering logic**. Therefore, it is essential to apply a flexible planning mechanism and start re-negotiating existing contracts – for example, with aircraft lessors, catering and ground handling service providers. On the **commercial side**, success comes down to regaining customers' trust and motivating them for future bookings. Smart fare rules and flexible re-booking options, backed by strong communication are essential. Protecting loyal fliers through thoughtful adjustments to status rules would also help.

A key difficulty in the recovery phase is often **forecasting**, which is essential for a sustainable and financially viable ramp-up. As there are no reference data for a crisis of this magnitude, new forecasting methods and the combination with external data sources, such as global infection numbers, can provide valuable insights.

The crisis is also an opportunity to revisit the current business model and chart a modified path, if necessary, while accelerating measures to be lean and increase digitisation. A prolonged crisis may also offer room for opportunistic acquisitions as airlines find their financial and strategic positions weakened.

What will the future hold?

It is yet too early to quantify the full cost or further development of the crisis; it will depend to a large

extent on how governments and populations navigate the next six months. While air mobility will continue to remain a key driver of global connectivity, a post-COVID-19 aviation industry will look different and each airline has to take the right decisions now in order to remain a successful player.

"Africa has two significant advantages: it has tremendous inherent demand for connectivity and growth especially on the continent (SAATM), and its airlines are used to operating under stressful and uncertain conditions. The continent recovered strongly from the last health crisis –the Ebola epidemic in Western Africa between 2014 and 2016 – and we are confident the industry will recover after COVID-19 as well", expresses Catrin Drawer.

Although the current crisis is unprecedented, we can learn from past crises such as the Asian crisis, 9/11, SARS in 2003, the global financial crisis in 2008/2009 or the ash cloud over Iceland in 2010. Every crisis had its own dynamics, but the combination of revenue protection, cost cutting and preparing to jump-start the business after the crisis was the common denominator to navigate through them. In the last 30+ years, Lufthansa Consulting has successfully guided its clients through these situations to not just survive a crisis, but thrive in recovery.

The African aviation industry will eventually bounce back. The winners at the other end of this crisis will not be those who merely rode out the crisis but those who used it as an opportunity to rethink their business and came out leaner, smarter and hungrier to compete in a changed marketplace.

Note: State of information regarding infection numbers and protective measures by individual states in this article is 26 March 2020. 