

# KENYA AIRWAYS RECOVERY STRATEGY

## **AIM**

To apprise..... on the proposed interventions to achieve Kenya Airways Recovery.



#### **INTRODUCTION**

# **KQ MARKS A DECADE IN LOSSES**

Kenya Airways (KQ) has reported its tenth consecutive loss after it completed a decade in the red territory with a record Sh38.26 billion full-year loss.

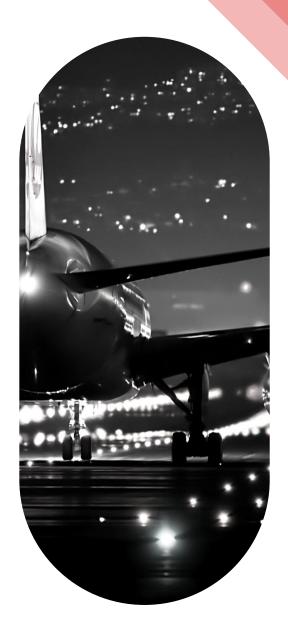
The airline has been in the hands of four different CEOs in the last 10 years as the strategy shifted from expanding fleet size to narrowing it down as the **accumulated losses hit Sh172.68 billion amid State bailouts**.

On 27<sup>th</sup> May 2022, an audit closing meeting was held with EASA [European Aviation Safety Agency]. It was found that Kenya Airways was NON-COMPLIANT with the minimum EASA Part 145 requirements for a EASA Part 145 Maintenance Organisation. Henceforth, Kenya Airways had to surrender its EASA Part 145 Approval for the following:

- Nairobi Line Maintenance Al Rating for: Embraer 170/190, Boeing 737-600/700/800/900, Boeing 787-8/9
- Mombasa Line Maintenance Al Rating for: Embraer 170/190, Boeing 737-600/700/800/900
- All Workshop C Ratings for C6 (Equipment-Safety, Galley and Unit Loader Device) and C14 (Landing Gear)

On the contrary, Ethiopian Airlines stated, in their vision 2035, they aim to **double their destinations from 131 to 207.** They also plan to **increase aircraft numbers from 140 to 271**.

Whereas losses could occasionally occur due to some unforeseen circumstances, KQ's loss-making trend has continued for a decade without any turn-around plan being given by the airline's management.





# **SCOPE**

- ❖ Introduction
- Kenya Airways Challenges
- Way Forward

Revamped Governance Results Oriented Organsiational Structure

- Kenya Airways Challenges
- Recommendations
- Conclusion

#### **SUMMARY OF KENYA AIRWAYS CHALLENGES**

#### **Leadership challenge & conflict of interest**

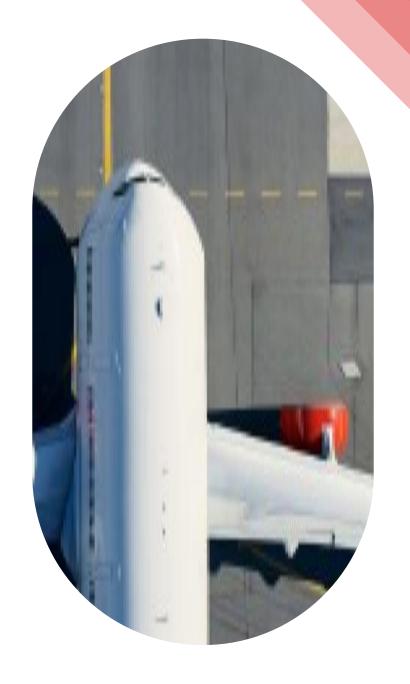
• Caused by lack of passionate, competent board members with the relevant aviation skills, stakeholders representation, and expertise.

#### **Operational Inefficiencies**

- Irrational decisions around critical personnel by design.
- Inefficiencies in service outsourcing.
- Inefficient routing of aircrafts based on impulse rather than data.

#### **Inadequate Customer care and service**

- Closed sales offices in Kenya and internationally.
- Understaffed and ineffective call centre.



### **WAY FORWARD**

The recovery plan should be driven by:

- Revamped Governance
- Results Oriented Organsiational Structure
- Review of the mission etc.

- Harmonised operations
- Procurement & Maintenance

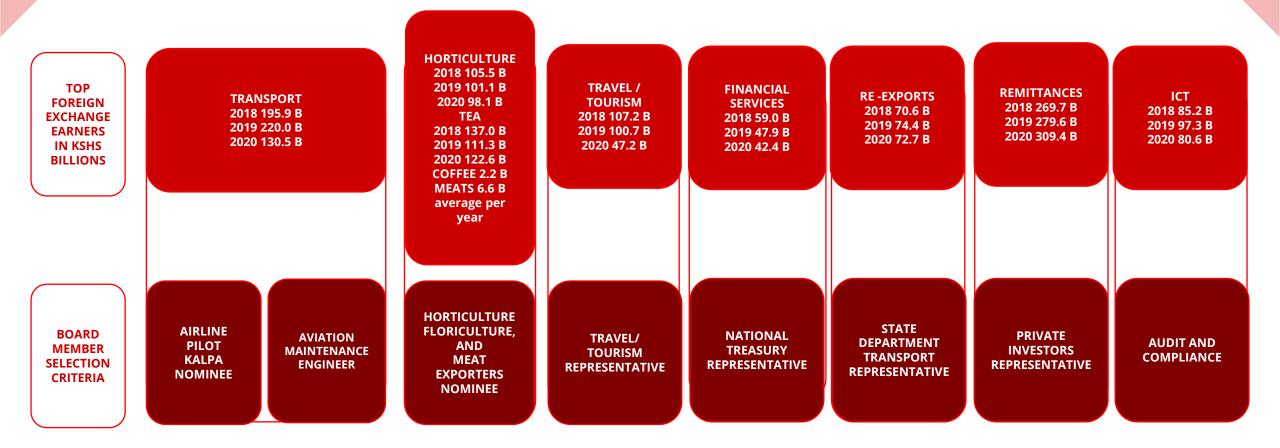
#### **REVAMPED LEADERSHIP [GOVERNANCE]**

A new leadership team is needed both at board and management level. The company board should comprise of Aviation professionals and key relevant stakeholders other than investors approach only. Currently the board comprises of:

Board Member	Background	
Chairman, Michael Joseph	Electrical engineering	
Allan Kilavuka, CEO	Commerce and psychology	
Phillip Wanjohi Wambugu, Haron Sirima	Economics, & Accounting	
John Ngumi	Accounting	
James David Kabeberi	Banking	
PS Mohamed Daghar	International Relations and Development Studies,	
Hakan John Wilson	Political science	
Carol Armstrong	Art and Archaeology	
Major General [rtd.] Michael Gichangi	Pilot with a strategy and aviation management background	

This should be aligned as follows to afford recovery

#### PROPOSED KENYA AIRWAYS GOVERNANCE



The proposed governance structure is based on case studies of some of the world's best airlines such as:

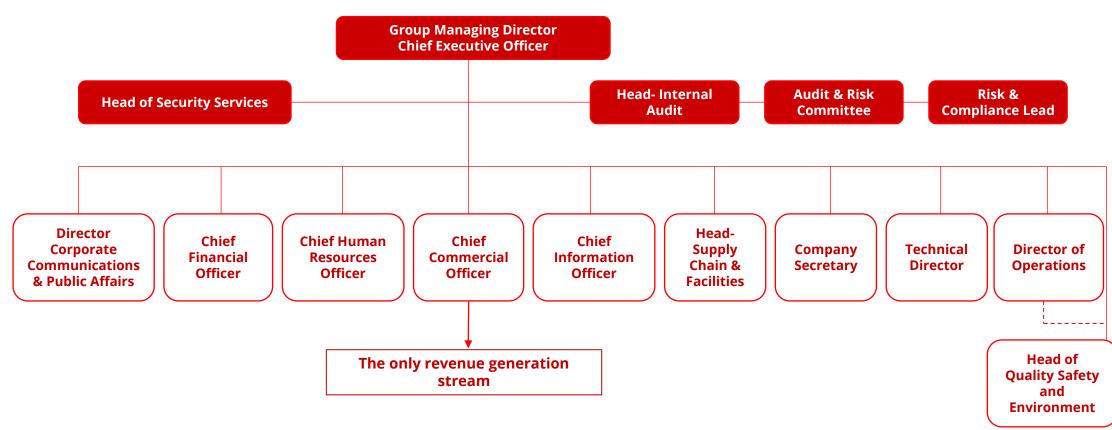
# AMERICAN AIRLINES – AVIATION EXPERTS AND STAKEHOLDER REPS [2022]

Board Member	Expertise	Other organisations/ bodies worked for that enriches American Airlines
William Douglas Parker Chairman & Chief Executive Officer	Piloting	American Airlines Group, Inc., American Airlines, Inc., Air Transport Association of America, Inc., International Air Transport Association, Vanderbilt University, SMU-Cox School of Business, Airline Passenger Experience Association, Inc.
Adriane M. Brown Independent Director	Youth Employment	Axon Enterprise, Inc., International Women's Forum, American Airlines Group,. Inc., KKR & Co., Inc. American Airlines, Inc., Pacific Science Center, Jobs for America's Graduates, Washington Research Foundation, Greater Seattle Chamber of Commerce, eBay, Inc.
Gregory D. Smith Director	Horticulture	Ann & Robert H. Lurie Children's Hospital of Chicago, American Airlines Group Inc., The Museum of Science & Industry, Chicago Horticultural Society, Intel Corp.
James F. Albaugh Independent Director	Aeronautical Engineering	Fu Foundation School of Engineering & Applied Science, American Airlines, Inc., Willamette University, The National Competitiveness Center, American Airlines Group, Inc., Aloft Aero Architects, National Aeronautic Association, Howmet Aerospace, Inc., Belcan LLC, Smithsonian National Air & Space Museum
Jeffrey D. Benjamin Independent Director	Aerospace Engineering	Rackspace Technology, Inc., Hexion, Inc., American Airlines, Inc., Shutterfly, Inc., NRG Radio LLC, Involta LLC, Rackspace US, Inc. Hexion Holdings Corp., Sherwood Holdings Inc., Rackspace Technology Global, Inc., American Numismatic Society, ImOn Communications LLC, A-Mark Precious Metals, Inc., American Airlines Group Inc., EXCO Production Company (M) LLC,. Higher Learning Technologies, inc., NRG Media, LLC
John T. Cahill Lead Independent Director	Manufacturing [Food Exports]	American Airlines, Inc., Colgate-Palmolive Co., American Airlines Group, Inc., The Kraft Heinz Co., Medical University of South Carolina Foundation
Matthew J. Hart Independent Director	Aircraft Leasing	American Airlines, Inc., Air Lease Corp., American Homes 4 Rent, American Airlines Group, inc.
Denise M. O'Leary Independent Director	Medical Tourism	Galvanize, Inc., Connect For Health Colorado, Smithsonian Institution, American Airlines, Inc., Project Canary PBC, Bonfils-Stanton Foundation, American Airlines Group, University of Denver, Medtronic Plc, University of Colorado Hospital Authority
Ray M. Robinson Independent Director	Transport/ Infrastructure	University of Denver, American Airlines, Inc., FROG Holdings, Inc., Spelman College, FTAI Infrastructure, Inc., Acuity Brands Inc., Aaron's LLC, The Golf Club at Bradshaw Farm, Georgia Aquarium, Inc., Citizens Bancshares Corp. (Atlanta), American Airlines Group, Inc., East Lake Foundation, Citizens Trust Bank (Georgia), Fortress Transportation & Infrastructure Investors LLC
Marty H. Nesbitt Independent Director	Tourism & Travel	Vistria Fund II LP, Chewy Inc., American Airlines, Inc. Help At Home LLC (Illinois), CareMetx LLC, <b>The Museum of Contemporary Art (Illinois.), The Barack Obama Foundation</b> , American Airlines Group, Inc., CenterPoint Energy, Inc., ForwardLine Financial LLC
Susan Dana Kronick Independent Director	Tourism & Travel	American Airlines, Inc., Hyatt Hotels Corp., American Airlines Group, Inc., Hyatt Corp

#### FOCUSED ORGANIZATIONAL STRUCTURE

A new organizational structure should be established with direct emphasis on Kenya's economic drivers, KQ's core functions and revenue generation streams. Notably, the current structure mirrors a bank structure.

#### **CURRENT KENYA AIRWAYS MANAGEMENT STRUCTURE**



#### PROPOSED KQ ORGANISATIONAL STRUCTURE

**TOP FOREIGN EXCHANGE EARNERS** IN KSHS **BILLIONS** 

**TRANSPORT** 2018 195.9 B 2019 220.0 B 2020 130.5 B **HORTICULTURE** 2018 105.5 B 2019 101.1 B 2020 98.1 B TEA 2018 137.0 B 2019 111.3 B 2020 122.6 B

TRAVEL / TOURISM 2018 107.2 B 2019 100.7 B 2020 47.2 B

FINANCIAL SERVICES 2018 59.0 B 2019 47.9 B 2020 42.4 B

**RE-EXPORTS** 2018 70.6 B 2019 74.4 B 2020 72.7 B

REMITTANCES 2018 269.7 B 2019 279.6 B 2020 309.4 B

ICT 2018 85.2 B 2019 97.3 B 2020 80.6 B

**BOARD MEMBER SELECTION CRITERIA** 

**AIRLINE PILOT KALPA NOMINEE** 

**FLIGHT** 

**OPERATIONS** 

Director of Flight

**Pilots** 

**Cabin Crew** 

Ground

Airport

**Operations** 

**AVIATION** MAINTENANCE **ENGINEER** 

**HORTICULTURE** FLORICULTURE, AND MEAT EXPORTERS NOMINEE

TRAVEL/ **TOURISM** REPRESENTATIVE

**NATIONAL TREASURY REPRESENTATIVE** 

**FINANCE AND** 

ACCOUNTING

**Chief Financial Officer** 

Finance

Accounting

Aircraft acquisition

and leases

Maintenance

reserves

**Procurement** 

**STATE DEPARTMENT TRANSPORT** REPRESENTATIVE

**PRIVATE INVESTORS REPRESENTATIVE** 

**AUDIT AND COMPLIANCE** 

**Group Chief Executive Officer** 

CEO

Department

**Operations** 

In charge of

New

Revenue

Generation

Streams

**Proposals** 

In

partnership

with

Y and GE

private

investors

Direct Job

Creation

**Opportunities** 

Set up of a **Boeing 787 Simulator** Boeing 737 Simulator

Boeing Flight Training Kenya Airways Flight School for initial PPL

**Greater co-operation** 

Pilots **Cabin Attendants** Instructors **Crew Planners** Load Controllers **Station Controllers** Turnaround Coordinators

**ENGINEERING** Head of **Engineering** 

Engine & Component maintenance Line & Airframe maintenance **Ground handling Equipment, Vehicles** and buses maintenance

Set up of a General Electric engine overhaul center for the GEnx-1B and CFM 56-7B26 engines

Set up of a Non **Destructive Testing** facility

Set up of an Engines test

Greater co-operation with our technical universities, colleges and vocational training

**Aeronautical Engineers Engine & Airframe** engineers Avionics engineers **Mechanical engineers Plant engineers** Painters

**CARGO AND MAIL** Head of cargo and mail

Airfreight Pharma Fresh Live Safe and valuables Charter Pets Courier Mail

Establishment of a Regional and International Cargo Hub using that HUB and SPOKE LOGISTICS

Set up of a DROP AND SHIP portal especially for Diaspora packages eliminating brokers and increasing revenues. Greater co-operation with State

Department Trade Kenyan Export, Promotion and Branding Agency Kenya Flower Council Fresh Produce Exporters Association of Kenya Meat and Livestock Exporters State Department for Fisheries

SALES AND MARKETING Head of Sales and Marketing

Sales and Marketing Mileage and lifestyle Customer experience **Brand Kenya** Tourism

Heritage KWS. **Kenya Association of Travel** Agents (KATA) **Association of Hotel Professionals Kenya** Pubs. Entertainment and Restaurants Association of Kenya (PERAK) Medical Tourism **Diplomatic Missions- Peace** 

> Indirect Job Creation Opportunities

Taxi Drivers **Matatu Drivers and Assistances Lorry Drivers** Cleaners **Boda Boda Riders** 

**STRATEGIC** CORPORATE **RELATIONS Head of Strategy** 

**Route Marketing Corporate Planning** Greater co-operation with Minitsry of **Foreign Affairs** Corporate Communications

**EXECUTIVE SECRETARIAT Legal Secretary** 

Quality, safety and environment Security

**GENERAL AFFAIRS** Head of department

**E** Commerce Digital Innovation **IT Planning KQ Apps for Tourism** &

Trade **Human Resources** 

and CPL

with Kenya Airport **Authority** 

> Baggage handlers Loaders **Equipment Operators**

Enhanced corporation's with: Ministry of Sports Culture & Kenya Tourism Board, KTDC

**Support Opera** 

**Tour drivers** 

Chefs

Waiters/ waitresses

Tour guides

Receptionists

Mechanics Parts shops sales men **Petrol Stations** Farmers (Large Scale to small scale) Farm workers

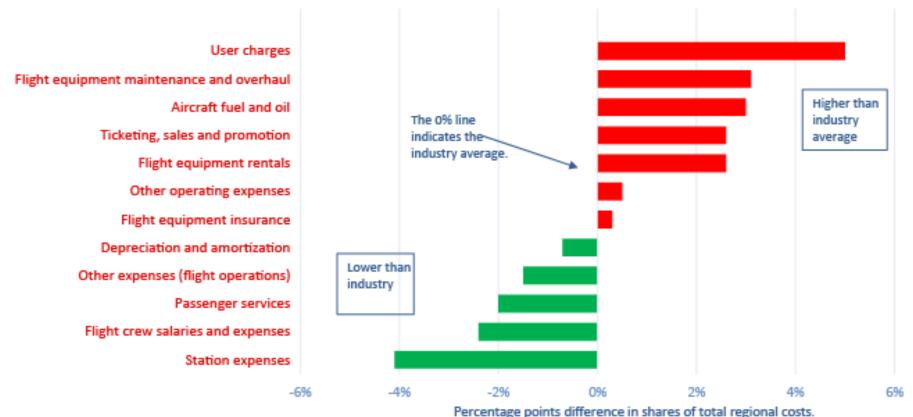
Rental Landloards **Green grocers Veterinarian Doctors** Food kiosks Landlord

This proposed organisational structure is based....

# **OPERATIONAL EFFICIENCY [REVIEW OF COST DRIVERS]**

According to IATA (www.iata.org/economics) below are the real airline cost drivers at KQ and the difference in costs in comparison to industry standards. Higher than industry average costs drivers. KQ procurement processes should be based on objective decision making criteria while balancing competition, transparency and integrity.

#### Differences in cost sources: Africa vs Industry





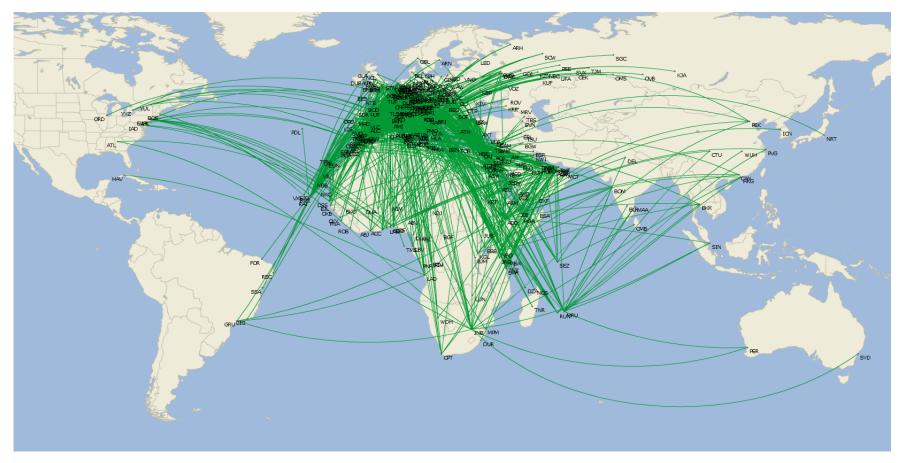
# REORGANIZATION OF THE AIRLINE'S FLEET TO ONE MANUFACTURER TYPE

This will reduce lease rates, costs of spares (discounts), transitional & recurrent training costs and time and certification nightmares across various platforms. For example:

- Domestic and Regional destinations to be serviced by the Boeing 737 -8 with a capacity of 145 seats.
- International and Regional destinations Boeing 787 8 and 787 9/10 series with a capacity of 234 / 296 seats.
- Ultra Long range (North America, Brazil, Japan and Australia) Boeing 777X with a capacity of 384 seats.
- Cargo Boeing 777 Freighters with a payload of 102 Tonnes and any of our aging aircrafts to be converted to pure cargo only aircrafts gradually building our cargo fleet cheaply.
  - Cargo Boeing 787 Freighter payload 50 Tonnes
  - 737-8 payload 22.7 Tonnes
  - 737-3 payload 18 Tonnes



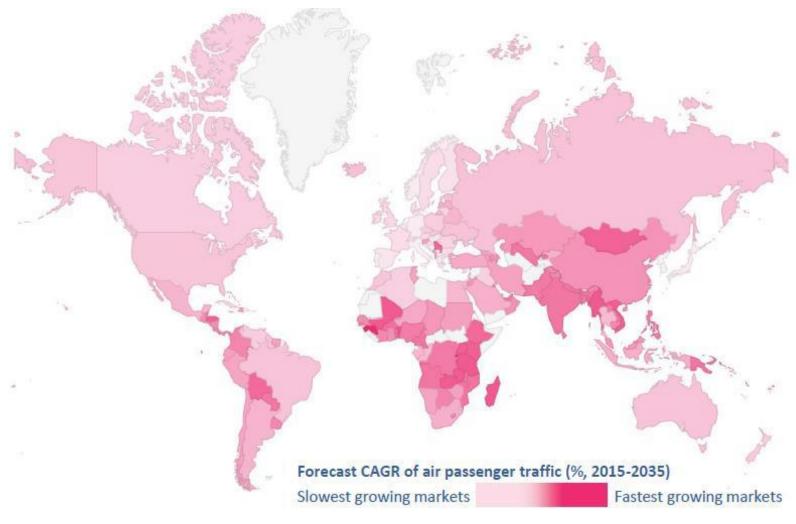
# AIRCRAT OPERATIONS MAXIMIZATION AIR TRAVEL CONNECTIVITY FROM AFRICA TO THE WORLD: 2018



Source: SRS Analyser www.iata.org/economics

Currently, the hub of air connectivity is in Europe. However, due to the growing population and geostrategic importance of Africa, a shift can be obtained.

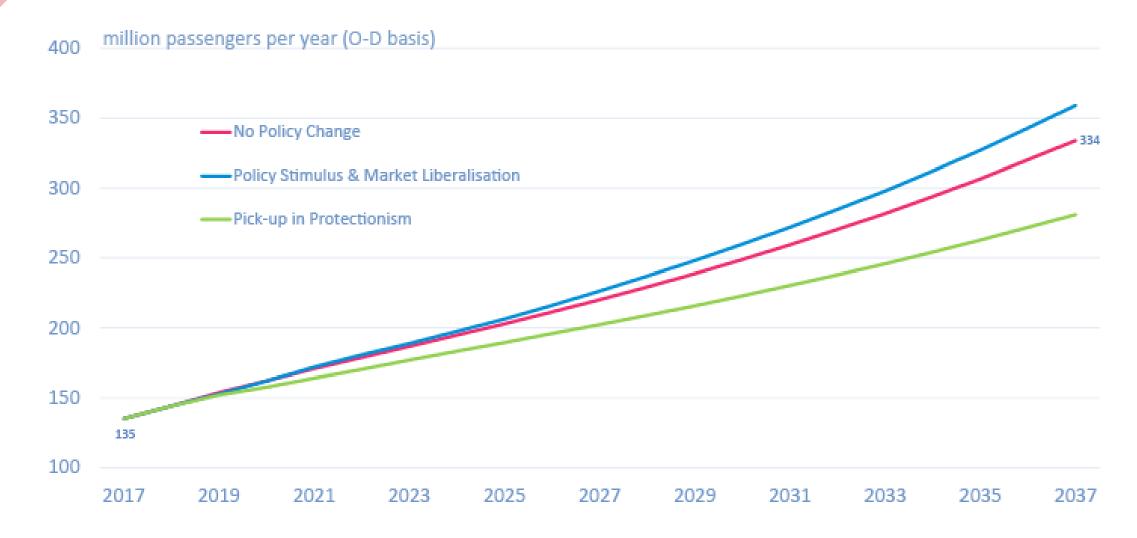
## PROSPECTS OF AIR PASSENGER GROWTH



Source: IATA/Tourism Economics www.iata.org/economics

There is a shift in the East and South because.....
And this favours Kenya Airways and other African Airlines

#### DEMAND FOR AIR TRAVEL IN AFRICA TO SOAR IN THE MIDDLE RUN



Source: IATA/Oxford Economics

#### **RECOMMENDATIONS.**

#### It is recommended that:

- The proposed changes in governance and organisational structure is systematically adopted
- The fleet type be homogenous to accord ease in operations and maintenance
- Financial bailouts to provide a financial cushion

Due to the ongoing debt crisis in KQ and Kenya, I would recommend the use of a Diaspora Dollar infrastructure bond and also a local currency one as financing options for the revamping of the airline's operations. These can be issued to Kenyan Diaspora, pension funds, and local Kenyans to fund a new KQ terminal, second runway, and a bigger cargo center. This approach could potentially ease the strain on the taxpayer while still allowing Kenyans to own Kenya's assets.



#### **CONCLUSION**

The benefits of having a safe, reliable and profitable airline is a key economic driver Kenya Airways can rapidly return to profitability if these recommendations are implemented

