

# Budget Air Pioneers Review Performance

By [The Moscow Times](#)

January 19, 2012

**The**  **Moscow Times**

In 2004, an MBA student called Salavat Rezbayev was trying to come up with a business plan for his final semester at Harvard Business School. The concept he hit upon — a low-cost airline called airNova — proved so popular with aviation experts and investors that he went on to develop a real concept for an airline.

He wasn't alone. Rival investors got wind of the idea and launched Sky Express in 2007. After a hunt for investors, Rezbayev finally launched his own, Avianova, in 2009.

Despite high hopes, both airlines ended operations in the autumn. Vedomosti asked their founders why such a promising business plan failed and whether low-cost carriers will fly in Russia again.

## **A Rough Start**

Sky Express and Avianova made their first mistake straightaway by choosing used airplanes that require more frequent and laborious repairs. As a result, both airlines suffered from flight delays.

“When a passenger experiences an hours-long delay and no one helps him, he simply doesn’t fly again,” said Konstantin Teterin, who worked with Rezbayev on the airNova concept and is currently heading the liquidating commission at Avianova.

“A low-budget airline’s airplane should be maximally dependable since the discounter is going to squeeze everything possible out of it,” said Sergei Koltovich, who was head of fleet planning at Aeroflot when Rezbayev was working on the airNova concept. “Ryanair takes new machines from the plant and uses them seven or eight years before their first capital overhaul, and then sells them on.”

The airNova proposal called for 15 new Airbus A320 planes, but in practice things worked out differently. Sky Express had Boeing 737 models that were an average of 19 years old.

Low-cost airlines have a very tight schedule, and when even one plane was out of commission, Sky Express flights were delayed, said Dmitry Chernyak, who worked on the Avianova project for majority shareholder A1.

Consequently, a Sky Express plane spent six hours a day in flight, according to his data.

Marina Bukalova, who was general director of Sky Express, said that, at the time, “there was no equipment available on the secondary market.” When Sky Express started, there were prohibitive duties on the import of foreign airplanes that, along with VAT, amounted to 41 percent of the cost of the aircraft.

Delays began to occur at Avianova as well, although Koltovich considers its policy toward its fleet more correct.

The company chose the A320 and in its fleet were two planes made in 1997 and four that were 5 to 8 years old. Chernyak said the planes spent on average 12.5 hours a day in the air.

## **Flying at a Loss**

Nonetheless, Sky Express and Avianova occupied a significant place on the market. In 2010, Avianova carried 1.3 million passengers, and Sky Express had 1.15 million.

But they were unable to turn a profit. SPARK data show Sky Express and Avianova continually sold tickets at a loss. In 2010, the cost to Sky Express of its flights was 4.3 billion rubles (\$134 million), while revenue was only 3.6 billion rubles.

Those indicators for Avianova that year were 3.5 billion rubles and 2.4 billion rubles, respectively.

Rezbayev said the cut-rate carriers poached customers away from traditional airlines instead of building their own passenger base.

“There is a huge number of people who could have flown [the discount airlines] but didn’t,” Rezbayev said. “There was a huge, dead niche that had to be brought to life. But instead of doing that, the low-cost airlines took the easiest pieces — business from the big carriers.”

The budget airlines were unable to compete with traditional carriers for business passengers who flew from Moscow to the regions. Usually their employers bought the airline tickets, and a saving of 1,000 rubles to 2,000 rubles was not as important to them as a timely arrival.

### **No Add-On Income**

Teterin had similar comments. Flying with a budget airline was a good choice for a tourist of modest means, he said. But there is no tradition in Russia of flying to the country for the weekend and no infrastructure to allow for it.

“One would do better flying to the Baltic,” Teterin said.

The lack of mid-level hotels at a decent price in Russia deprives discount airlines of the opportunity to complement their incomes by selling extra services.

Teterin estimates that European low-cost airlines make about 30 percent of their income from hotel and car reservations and the sale of similar services.

“What hotels can we reserve in the country by Internet?” Teterin asked with a laugh.

Another reason it is hard for budget airlines to compete is that, worldwide, they usually fly to small, peripheral airports. But in Russia those airports are not capable of receiving planes like a Boeing 737 or A320.

Also, airports prefer to serve the flights they are accustomed to. Budget carriers use cheap and inconvenient night timeslots, which means they attract fewer fliers.

Sky Express ran up 2.5 billion rubles in debt to its suppliers and then collapsed. Now Oleg Deripaska’s Kubanskiye Airlines flies on its routes. Avianova was ultimately grounded by a shareholders’ conflict.

The story may not be over, however. Chernyak says there are three groups of investors currently considering launching budget carriers in Russia. Rezbayev said he has not laid the subject to rest either and that a little of it “remains in the soul.”

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