Part C

Read the case "The New Flight Plan" carefully and attempt the Questions listed below.

C-1. Make an analysis of the environmental factors associated with the aviation industry in India as in 2006. In case you are listing any factors that are discussed in the case please identify/mark it separately.

[6 Marks]

C-2 Make a competitive industry analysis of the India aviation industry as in 2006.

[7 Marks]

C-3. If you are an advisor to Jet Airways, what are the key elements of the strategy that you would recommend to the firm? Please make a SWOT analysis before designing the elements of the strategy.

[6Marks]

C-4. If you are an advisor to Go Air, what are the key elements of the strategy that you would recommend to the firm? Please make a SWOT analysis before designing the elements of the strategy.

[6Marks]

THE NEW FLIGHT PLAN

Until about four years ago, there were only three scheduled domestic carriers in India – Jet Airways, Indian Airlines and Air Sahara. In August 2003, Air Deccan entered the scene and became India's first ever flight between the two southern towns of Bangalore and Hubli. Ever since, the dynamics of the game have never been the same again. The Bangalore-based LCC was soon followed by Kingfisher Airlines, Spicejet, GoAir, Paramount Airways and IndiGo.

However, this scenario, where the consumer reigned as the king with the fares hitting a new low everyday while the airlines continued to bleed losses has changed swiftly over the past few months. In recent times, India's airlines have taken a number of far-reaching steps towards greater survival. What then are these strategies they have adopted to remain in the skies? Will these ensure survival?

Consolidation

Despite the bullish traffic growth estimates that it is extremely difficult for a market to absorb as many new entrants as the sector was witnessing in India. Particularly, given the short duration – three years when nearly five carriers entered the market – and given that the industry is still plagued by a number of external issues like poor airport infrastructure and manpower shortages, that increase costs for airlines managements and reduce their efficiency and flexibility. The real trigger for the consolidation process came from Jet Airways' acquisition of Air Sahara. Navin Wadhwani, Director, Rothschild believes that, "It was the Jet-Sahara wrangle that slowed down the consolidation was imminent. The furious grab for market share that the airlines' were engaging in was unsustainable." So once the Jet-Sahara deal was in place, what also gave the consolidation process a much needed push was the fact that the Civil Aviation Minister, Praful Patel, actually managed to get the Air India and Indian merger to move beyond mere paperwork. With the industry seeing a merger and a salvaged takeover, it was only a matter of time that the two Bangalore-based carriers, Kingfisher and Air Deccan, also decided to join hands. In fact, according to the Centre for Asia Pacific Aviation's (CAPA) India unit, the consolidation that the industry is currently experiencing, is expected to continue in the form of strategic alliances and closures through this year. Kalpesh Parekh, AVP-Equity Research., ASK RJ has a similar view. He says, "The industry will continue in the consolidation phase for the coming two to three years given the capital intensive nature of the aviation business."

As per CAPAs projections, India is potentially a ten airline market, consisting of two-three full service carriers, two-three large national low cost carriers operating a fleet of more than 70 aircraft each, and three-four niche regional operators with aircraft less than 80 seats. There is no denying that the current spate of consolidation is the industry's way of staying afloat. For example, by taking over Air Sahara for Rs 1,450 crores, Jet Airways has saved up on some of Its infrastructure and manpower costs.

The airline will now have as much as 40 per. cent of all the parking bays in Mumbai and Delhi. It will also have more than 40 per cent of total slots to fly in to Mumbai and Delhi. Post the merger, the savings for Air India and Indian will also be on similar lines. Though we are yet to find out how exactly will Air Deccan and Kingfisher share the common routes and space out their aircraft deliveries, according to the Kingfisher chief Vijay Mallya, "Air Deccan and Kingfisher will save more than Rs 300 crore due to fleet commonality."

But more interestingly, organisations tracking the sector believe that a big chunk of growth that the sector will see in the coming few months will come from international routes. And that is the next big move for the Indian aviation industry. "Airlines in India are bound by limitations as to where they can fly within the country. There are few big airports where they can fly in the Boeing 737s or the Airbus A320s with, decent load factors. For the smaller airports aircraft like the turboprops or the regional jets make sense and the key metro routes like Mumbai-Delhi are already saturated. On the other hand, airlines can command better realizations and margins on international routes", says ASK RJ's Parekh.

As per industry estimates, international traffic will grow at a healthy rate of 15 per cent till the end of this decade. Domestic traffic will continue to rise at a higher rate and is expected to grow between 25 to 30 per cent per annum.

The aggressive international expansion planned by airlines in India is proof enough of this, Both Jet Airways and Air India are, as we write, firming up plans for their overseas operations. With orders for wide-body aircraft like the Airbus A330, Airbus A340s, Boeing 777s (both extended and long range) and the Boeing 787 Dream liners in place, airlines look set to ramp up their international operations.

The market leader, Jet Airways which launched its maiden international flight in 2004 connecting Chennai and Colombo plans to fly to every continent apart from Australia by the end of this decade. As of now, 16 per cent of Jet Airways' turnover comes from its international operations. The airline is hoping to raise this to 50 per cent by the end of this decade to Rs 9,000 crore. The airline has even set up an international hub in the Belgian capital of Brussels.

Others like Air Deccan, Spicejet and Kingfisher have waxed eloquent about their international ambitions at various platforms, often criticizing the government's rule of not permitting carriers that have yet to complete five years in the business to fly abroad. In fact, Vijay Mallya, chairman, Kingfisher Airlines, even announced that, "Once our wide-body aircraft arrive in February 2008, we plan to fly to the US with a San Francisco-Bangalore flight."

Meanwhile, even as the route sharing between Air India-Indian and Kingfisher-Air Deccan is still under wraps, one can safely say that both Air India and Kingfisher Airlines will leverage their international operations on the basis of Indian and Air Deccan's domestic network. In fact Mallya has even gone on record saying that, 'We will be the only carrier offering seamless connectivity between San Francisco and Shimla." With airlines inducting wide-body aircraft (Jet Airways will induct ten aircraft and Air India (AI), will add six aircraft by end-2007), both of them are expecting to launch their US operations in August. AI is banking on people wanting to fly non-stop to the US in 16 hours. Hence, the airline will fly a Boeing 777-200LR (long range] between Mumbai-Newark. Jet, bound by the Open Skies agreement between India and US, will fly via Brussels on a Boeing 777-300ER (extended range). Meanwhile, Kingfisher thinks flying the super jumbo A380 that can carry 500 passengers at one time makes much more business sense on the US routes. The Mallya-owned carrier has also placed an order for five Airbus A380s that will enter its fleet after 2012. However, it is also awaiting the Airbus A340-500 to be delivered in February next year to launch flights to America. Air India on the other hand, after years of an old and failing fleet clipping its wings with 63 brand new air craft is considering setting up an international hub in Frankfurt. The long range Boeings will be used for non-stop flights to the USA. The Boeing 777-300ers will be used for one-stop connections between. Hyderabad and destinations in the US. The Boeing 787 Dreamliner that was recently rolled out and displayed before the public, will be used to enhance connectivity to Europe and South East Asia. If one were to add Indian's order for 43 Airbus planes, the merged entity will have a fleet consisting of nearly 112 aircraft. And with a 100 plus fleet, the government hopes that the merged entity will have the capacity to take on international biggies like Singapore Airlines and Emirates.

Though Kingfisher is yet to entirely reveal its international route network and how it plans to deploy all the various wide-body aircraft, Air Deccan's Captain Gopinath is already eyeing the international LCC market. As per the rather controversial five year rule laid down by the government, Air Deccan will be eligible to fly abroad next year. With LCCs like the Thailand-based Nok Air, Jazeera Airways based in Kuwait and Singapore Airlines' low cost arm, Tiger Air being allowed to fly into India, the likes of Air Deccan and Spicejet are asserting their international aspirations. Captain G RGopinath, executive chair-man, Air Deccan, says, "There is no logic for a five-year restriction, especially when you are allowing upstart foreign carriers with only few aircraft and no experience like Nok Air and Jet Star, to operate to India," Spicejet will also take delivery of four B737-900ERs by mid-2008 which are well suited for such international operations.

Critical Overview

Airlines	Year of Launch	Net Profit	Market Share	Fleet Size	Strategy
Air India	1932	16.24**	NA	53	FSC
Indian Airlines	1953	57.2**	17.9	75	FSC
Jet Airways	1993	27.94***	34#	64	FSC
Kigfisher Airlines	2005	NA	9.8	31	FSC
Air Deccan	2003	-246##	19.8	44	LCC
SpiceJet	2005	-41.4###	8.1	09	LCC
Paramount	2005	NA	1.4	05	Value Carrier
GoAir	2005	NA	4.8	05	LCC
IndiGo	2006	NA	4.2	11	LCC

Notes
All net profit figures are in Rs. Crores
FSC: Full Service Carrier, LCC: Low Cost Carrier
Market Share figures are for the quarter ended December 2006
* Air India started operations as TATA Air in 1932
**The net profit figures are for 2005-06
***The figures is for the year ended March 31, 2007
The figure is the combined market share of Jet Airways and Air Sahara
The figure is for unaudit result for the nine months ended March 31, 2007
The figure is for the year ended 31 May 2006

Fleet watch

Now, if one were to observe the aircraft ordered by airlines over the past couple of years, the orders are in line with the carriers' ambitious game-plan. Currently, there are around 300 aircraft operating in the country and nearly 150 of these have been ordered over the last two years. Add to this the nearly 480 aircraft that are to be delivered till 2012 ordered by all carriers put together. Given all these orders, according to CAPA, India's fleet will reach approximately 500-550 aircraft by the end of 2010.

However, what is more mind boggling than these numbers is the projections made by the two big manufacturers for the number of aircraft required by the country. Airbus estimates that India will require 1,100 aircraft over the coming 20 years, while Boeing feels that India needs 856 planes for the same period. What both however agree on is that most of the aircraft required by the country will be single-aisle aircraft like the Airbus 320s and the Boeing 737s. So what this indicates is that a major chunk of the growth in the domestic market will come from regional operations, which explains why airlines like Jet Air- ways and Air India are looking to develop a subsidiary to ply on the not-so-plum, non-metro routes. And it also explains why Air Deccan with its status of being the only carrier to fly into key travel destinations like Shimla, Dharamsala and others was such an attractive buy for Kingfisher. Jet Airways has a neat stock of planes on order too. The airline has a total of 100 aircraft on order and this, when it already has one of the youngest fleets in the world — the average age of its fleet is 5.3 years.

However, it is the Kingfisher-Air Deccan order book that stands the tallest. After Mallya's latest shopping spree at the Paris air show, the combined entity will together own 176 aircraft. The UB Group chairman placed an order for 50 Airbus aircraft, which includes 15 A35O-8OO XWBs, 10 A330-200s, five A340-500s and 20 aircraft belonging to the A320 family. Both Kingfisher and Air Deccan put together already have 88 Airbus planes and 50 ATRs on order that will enter their fleet till 2011, The Delhi-based LCC, IndiGo also made news at the previous Paris Air Show by placing an order for 100 Airbus A320s. Currently, it has spaced out its aircraft delivery in such a way that it will be taking delivery of one aircraft every month for the next two to three years. And the rationale behind such a large order, the management says, is the 'good' price that such a deal generally fetches and lower operating costs arising from fleet commonality.

Low cost operations

With Air Deccan's low cost strategy experience having seen results, the concept is seen as a strategy that will work in the Indian skies. Jet Airways is now looking to develop JetLite (Air Sahara) as a value carrier with frills that offers low fares to fly on some of its domestic routes.

If one were to go by observers predictions about the LCC market in India, the IndiGo order for 100 aircraft does begin to make sense. The industry estimates forecasts that LCCs will have a market share of 70 per cent by 2010, which they feel could be the highest in the world. "Full service carriers, on an average, are losing a remarkable 1.5 per cent of market share to LCCs every month. We do not expect this rate to slow in the short term, given the profile of current fleet orders", says Kapil Kaul, CEO Indian subcontinent & West Asia, CAPA. Currently all the LCCs put together have a market share of 3 7 per cent. In terms of load factors, CAPA believes that passenger load factors for both low cost airlines and full service carriers appear to be converging at around 75 per cent, with the exception of Paramount Airways which has a load factor below the 50 per cent mark. If load factors are just about looking decent, it is the profits, or rather the lack of it that is worrying the industry. As per industry figures, all airlines together have posted a loss of approximately $500 million in the last financial year. The industry also feels that despite rational prices, something that the industry is likely to witness now that Vijay Mallya has raised Air Deccan's fares, capacity addition (the number of aircraft entering airline fleets) will continue to put pressure on yields and thereby on industry earnings.

Way forward

Given the scale of losses that the industry is facing, the consolidation process is set to continue.

Independent carriers like Spicejet, IndiGo, GoAir and Paramount Airways will face a bigger challenge in the current scenario where Jet-Sahara, Kingfisher-Air Deccan and Air India-Indian have emerged as the big three with substantial bargaining power. Industry analysts believe that co-operation or strategic alliances between the independent players is likely to continue in the coming few months. As the Spicejet managing director, Ajay Singh says, "We welcome any move to reduce maintenance costs and optimize resource allocation." So one thing is clear: the airline industry in India is in no mood to repeat the mistakes made by the likes of Damania and Modiluft in the nineties. The coming months will indeed show whether the lessons from the class of 1995 have been learnt well.