

Thoughts on Airline Industry Strategy in India

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Background

- Post-liberalisation of the Indian economy in 1991, India's civil aviation sector opened up new possibilities for new commercial airlines to emerge in the industry
- Many new airlines sprang up – in addition to Indian Airlines – in the domestic sector, starting with EastWest Airlines and Damania to Jet Airways, Air Sahara and Kingfisher Airlines and others
- Many of them wound down operations, with only Jet Airways continuing as the main competition to Indian Airlines, especially among business and corporate travellers in the country
- Although several airlines were allowed to operate, the Indian government still did not allow equity participation by foreign airlines in the Indian airlines industry until early 2000s.
- Even now equity participation from foreign airlines is capped at 49%, which is how Singapore Airlines was finally able to tie up with the Tata Group to form Air Vistara in 2013 and start operations in 2015
- In the meantime, airport infrastructure in India was sorely lacking in terms of technology and modernization as well as capacity, so the Indian government focused on allowing private sector participation in building and expanding new private sector airports across the country
- At the same time, airlines started to suffer from huge debts, and high costs (including high aviation fuel costs in India) and there was a period of consolidation that set in around 2011-2015
- In fact, state-owned Indian Airlines and Air India themselves merged around 2006-2008 in an ill-executed merger that created its own set of problems
- India's much-touted Open Skies policy began to suffer and closed-in on only a few airlines that were capable of staying airborne in these exacting conditions
- Low-cost airlines started to emerge in the 2010-2015 period, connecting smaller cities and towns to the Metros as this market for air travel was growing
- This new low-cost carrier business model focused on air connectivity, number of daily flights and punctuality – the most basic functional aspects of air travel and it seemed to grow in popularity as it met the budget needs of growing numbers of flyers in India
- Today, Indigo Airlines is the sole, highly successful low-cost carrier in the country, besides Air India Express (now merged with Air Asia India)

- India's state-owned, and fully merged, Air India was finally returned to its original founders and owners, the Tata Group, in 2022, making it the largest airline in the country, though by market share, Indigo is the largest with 64% of the domestic market
- Tata's Air Vistara was performing well when it began in 2015, especially because of the introduction of Premium Economy class of travel for the first time in the Indian market
- However, the airline has now been merged with Air India and Singapore Airlines has a total stake of only 25% in the merged entity

Problems with India's commercial airline industry

The fact that the Indian airline industry has gone from a monopoly to an Open Skies phase, but couldn't sustain its growth and had to quickly consolidate with many airlines closing operations, and that we are left with a duopoly of two large airlines in the country shows that there is something systemically wrong with the industry.

It is not able to grow sustainably and generate healthy revenues and profits over a long period of time, and therefore doesn't attract enough capital investments either. I think this could be because of a variety of factors:

- A growing, but highly price-sensitive domestic market for air travel
- High costs of running an airline in India, including costs of aviation fuel, administrative and infrastructure-related costs
- Tough competition, even though there are few choices that consumers can exercise – competition is down to only air-fares
- The Indian commercial airline market is characterized by high costs and low revenue
- Most airlines look to expanding internationally in order to offset poor domestic performance; getting over the 5-20 rule hurdle (5 years of domestic performance and fleet of 20 aircraft, to be eligible to operate international flights)
- Little to no proper marketing and brand-building, when airlines are meant to be brand image builders for countries
- No clear policy framework to create a viable and profitable airlines industry

All these issues need to be addressed by the airline companies and by the government to remove serious bottlenecks and make the industry at least viable to begin with, and profitable over the long run.

And the one important factor that the industry and the government need to consider and allow, is to find ways to increase international participation in the industry as it requires high levels of expertise, know-how and

specialized skill-sets. It needn't only be through greater equity participation by foreign airlines; it could also be through better pilot-training facilities, better MRO operations, improved cargo and logistics operations, better technology in back-office operations, etc.

In other words, we have to attract the finest international expertise and best practices to overhaul our civil aviation industry. And we must reduce the costs of doing business in India's airlines.

How should we think about India's airlines industry?

We must consider India's airlines industry separately in both its domestic and international segments as different competitive frameworks are at work in both.

- Domestically, as I have already said, India is still a volume market that is growing in air travel, but not sufficiently enough for it to be able to generate good revenue, nor lower air fares significantly
 - This means that there are capacity constraints as well as demand generation issues that need to be addressed
 - Also, with only four airlines operating in the Indian market (one full-service and three low-cost) choices for customers are limited and it is primarily a sellers' market
 - We must also remember that India has also been modernising and expanding its domestic rail network and operations with better quality superfast trains, especially between smaller cities and towns and the Metros in recent years
 - Therefore, India's airlines industry must plan its growth strategy holistically, keeping the bigger picture in mind and by segmenting the travel market carefully
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- Internationally, airlines from India have a better chance to earn higher revenues that offset some of the high costs of operating in India and most Indian airlines seek to enter the international market as quickly as possible
 - In the international market, Indian airlines face formidable competition from the Middle-east – Dubai, Abu Dhabi, Qatar - as well as Southeast Asia – Hong Kong and Singapore
 - Middle-eastern airlines are known as the Great Connectors as these cities are international aviation hubs with policies that allow for low-cost refuelling, transfers and connecting flights as well as cargo operations
 - Hong Kong and Singapore are stronger on the trading front and therefore focus on cargo as well as on business travel

The question for us to ponder is where and how can the Indian airlines industry position itself. And how can the industry shape a vision for its future?

The context and competitive framework

In the domestic travel segment:

- India has a large population, and a young and growing one, so we should plan for an airline industry with huge growth prospects
- However, most of the air travel market is likely to be highly price-sensitive for many years, which explains the growth of the low-cost carrier market
- We have better, superfast trains now connecting many smaller cities and towns, so airlines can plan their flying routes more carefully and profitably
- Airlines can better plan their strategies on which travel customer segments to focus on and on which routes
- It would be erroneous to assume that all of India's domestic air travel market is low-cost travel, and airlines must therefore focus on brand differentiation and adding value (e.g. Indigo is low-cost, but its brand differentiator is punctuality)

In the international travel segment:

- India is one of the fastest growing economies and is therefore increasingly connected with the rest of the world
- Much more stiff competition in the international market for airlines from India, especially from other Asian airlines and therefore greater brand differentiation is required
- Better and more possibilities to segment classes of travel carefully and build brand differentiators into airline brands from India
- Opportunity to leverage Indian luxury in air travel, the way our luxury hotels have done, at least for First and Business Class travel
- Leverage India's technology and engineering strengths across the board, from flight reservation systems and airport check-ins to in-flight experiences and customer care

In short, there is a good chance to let our airlines build Brand India and build their businesses profitably

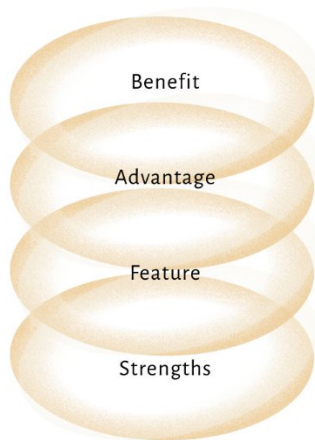
Future direction for the Indian airline industry

While we have been exploring only the passenger travel aspect of airlines till now, there is huge potential to grow our airlines industry across multiple lines of business

- The future of the airlines industry in India should be built by playing to our strengths and making the industry more competitive
- We must tap into the vast and high-quality engineering and technology talent and capabilities we have in building our airlines industry
- Therefore, India ought to grow its air cargo infrastructure and operations in a much more focused way in the future; these can transport compact and lightweight, as well as high-value goods more reliably and cost-effectively such as pharma products, software, electronic components, perishables as well as high-value fashion and jewellery items.
- India also ought to make the country an MRO hub for aircraft and airline industries, again on the back of huge engineering and technology strengths that we possess as a country
- All of these together will contribute towards building an image of the Indian airlines industry on the basis of our cultural and scientific strengths
- Perhaps these can be summed up by the idea of ‘Indian Asia’ as Heinrich Zimmer wrote – providing a bridge with linkages to the rest of the world.

Heinrich Zimmer focused on the art and iconography of India that spread and prevailed in large parts of Asia. What India’s airlines industry in the 21st century ought to leverage is Indian Asia from a scientific and technological perspective as well as cultural.

I have attempted to capture this future direction for the Indian airline industry through the schematic below, which also helps us understand the areas of differentiation with our Asian counterparts and other competitors.



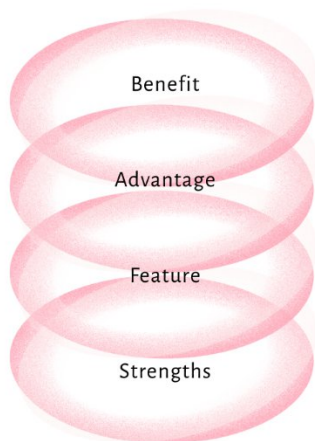
Middle-eastern Airlines

Middle-eastern airlines: The Great Connectors

Emirates, Etihad and Qatar Airways positioned on luxurious flying

Middle-east big stopover including for refuelling

Dubai, Abu Dhabi and Doha big trading centres



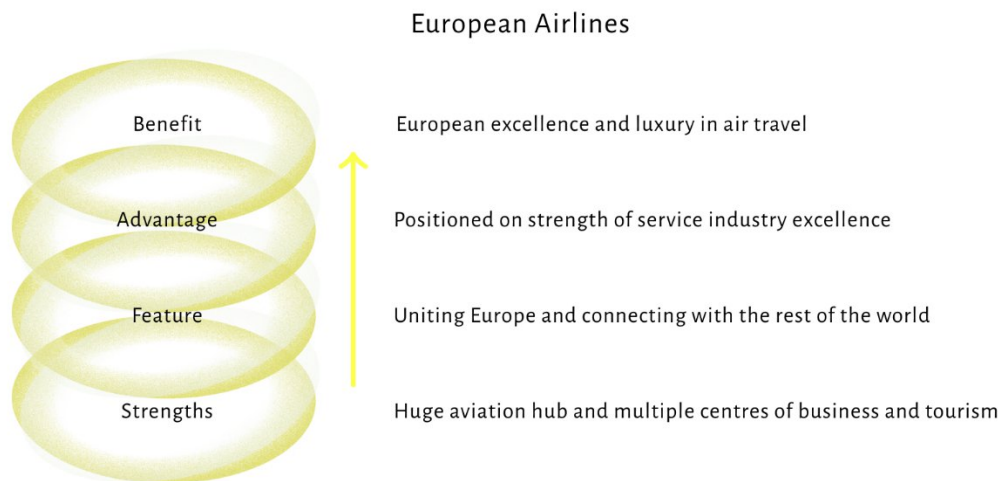
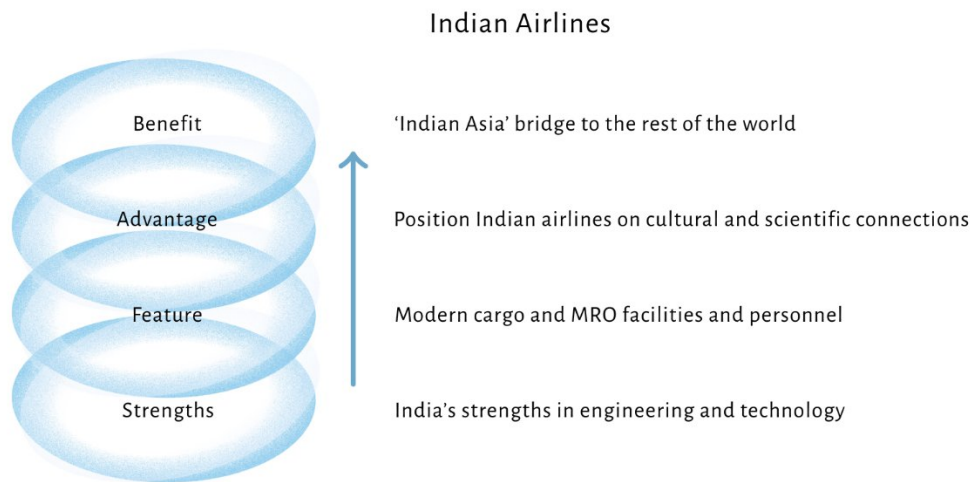
Southeast Asian Airlines

Southeast Asian airlines positioned as movers of people, capital and goods

Cathay Pacific and Singapore Airlines focused on business travel

Both cities transit centres and cargo handling

Hong Kong and Singapore financial and trading centre





If airlines industries from Asia have positioned themselves as great connectors and great movers of people, capital and goods across one of the faster growing regions of the world, the airlines industry in Europe has always focused on excellence in service while uniting Europe and connecting it with the rest of the world. I am including British Airways and other airlines from Britain and Ireland in European airlines. The airlines industry in America strikes me as completely different from the others in that it seems to be purely based on functional aspects such as destination network, numbers of flights and fares. Even though the US has such a large aerospace and defence industry, when it comes to airlines, they aren't all that differentiated, nor do they care to focus on enhanced in-flight service and the like. This is perhaps because Americans fly so much and so regularly that flying is no big deal.

The airlines industries in Europe and America have also been through considerable consolidation, especially after the 2008 Financial Crisis. In the US several large airlines were merged to create the big three: American Airlines, Delta and United. In Europe several airlines were acquired by Lufthansa and British Airways, and Air France, but the acquired airlines were allowed to continue as separate airline brands. I think this is because the acquired airlines belonged to specific countries and as image builders for their countries, they needed to retain their brand character and identity.

Coming back to the airlines industry in India, with the "Indian Asia" broad framework as industry vision for the future focusing on cultural and

scientific connections, individual airline companies will have ample scope to build their specific airline brands, with thoughtful and nuanced brand differentiators and classes of travel.

What this means for investments and policy in future

In terms of policy, the focus ought to be on:

- Lowering costs of doing business in the airline industry in India – from lowering aviation fuel prices to rationalising the airport infrastructure charges, etc that airlines have to pay
- Simplifying rules and regulations with clarity and speed
- Better and more sensible regulation
- Allowing greater international participation and collaboration with India's airlines industry
- Holistic policymaking, keeping rail and road travel in mind, and not forcing airlines to fly every route in every sector – in my opinion, UDAAN introduced by the Indian government was not such a great idea
- Better understanding and segmentation of the travel market in India – both for business and leisure as well as domestic and international
- Exercising caution in allowing [new airlines](#) to operate in India, as the business requires specialized knowledge and technical skills, and travellers' lives are at stake.

As far as investments go:

- Open up the industry to more international players, including foreign airlines and not merely NRIs who might not have the requisite expertise or experience
- Encourage and incentivise private sector investments in Indian and international air cargo and logistics infrastructure, keeping in mind road and rail freight as well
- Encourage and incentivise private sector investments in developing India as a sought-after MRO base for Indian and international airlines, along with helping develop the requisite educational and training infrastructure in the country

Organise annual international exhibitions and conferences that showcase India's cultural and scientific strengths to the world. Just one or two superbly thought-through and executed exhibitions/conferences would suffice – that attract international participants as well as visitors.

At a time of high protectionism in trade matters, and a punitive tariff regime, India can hunker down and quietly build an airline industry in the

next decade that transports millions of Indians and foreign travellers, goods and ideas across this vast country and the world.

No better time to attract foreign travellers and visitors to India as well, with the weak Indian rupee. Make an airline industry that does India proud and helps maintain and strengthen relations with the rest of the world.

This strategy and vision document for India's Airlines Industry has been conceptualised and written by Geeta Sundaram, advertising professional and blogger at <https://www.peripateticperch.com> who can be reached at geetasundaram08@gmail.com and via <https://www.linkedin.com/in/geeta-sundaram-aka-wise-owl>