Teaching Note

The Indian Aviation Industry: Price Wars and More

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SUMMARY:
The case examines the marketing strategies adopted by players in commercial aviation industry in India in 2002. It provides details about the industry’s evolution from a single-player monopolistic regime to its intensely competitive multi-player days in 2002. The marketing strategies adopted by the players, in terms of price-reduction, innovative customer service efforts and other promotional activities have also been explored. The case also debates the sustainability of the above strategies in the light of the fact that these were being seen essentially as short-run exercises by industry observers.

TEACHING OBJECTIVES & TARGET AUDIENCE:
The case is structured to enable students to:

- Understand the changing environment of the Indian aviation industry and the evolution of the three major players – Indian Airlines, Jet Airways and Sahara.
- Understand the rationale behind price-reduction being used as a strategic tool for deriving competitive advantage.
- Discuss the innovative promotional schemes being adopted by Jet Airways and Sahara that enabled them to capture a significant market share from IA.
- Evaluate the importance of customer service as a tool for differentiation in the aviation industry and examine how the players involved are utilizing the same to gain competitive advantage.
- Debate the need and viability of the strategies being adopted in the industry in the long run and discuss the options available for players in terms of brand building and promotion.

The case is aimed at MBA/PGDBA students, and is intended to be a part of the Marketing curriculum.

TEACHING APPROACH & STRATEGY:
The case can be used effectively both in classroom discussions as well as in distance learning programs. The moderator can introduce the following issues to the students:

- The concepts associated with price-reduction in general and its usage as a means to derive competitive advantage in an intensely competitive market.
- The importance of customer service in the success of an airline.
- Other strategies adopted by global airline companies to enhance market shares.
- The experiences of companies resorting to price-reduction in other industries in India – such as Maruti Udyog in passenger cars and Bharati in cellular telephony.
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ANALYSIS:

1.

The history of Indian aviation industry dates back to the early 1930s, when a private airline company was established by the business house of the Tatas. The company, Tata Airlines, secured government’s approval by offering to provide an air service to the government of India. Tata Airlines was quite successful and this led to the entry of a few other private carriers. In 1953, the government passed the Air Corporation Act (Act) that nationalized the airlines industry. Under the Act, the assets of all private carriers were distributed to two companies – Indian Airlines Corporation and Air India International.

The Act also resulted in monopoly and a highly regulated industry as it prohibited any person or organization to operate scheduled airline services. The monopoly in the industry partially ended in 1986 when the Air Taxi scheme was introduced to augment the existing domestic service and to boost tourism. Under the scheme, private carriers could operate scheduled services under some restrictions like operating the flight only after 2 hrs of the flight of the national carrier, restricting the maximum capacity to 50 (initially 10, increased to 50 in 1989). The carriers also could not publish the timings and issue tickets to the passengers.

The monopoly in the industry came to an end in 1994, after the government adopted the ‘open skies’ policy. The new policy allowed private carriers to operate scheduled domestic services and eight carriers were granted permissions. The entry of private players not only increased competition but also improved the service and performance levels in the industry.

The activities of the industry could be classified as operational, infrastructural and regulatory-cum-developmental. On the operational front, IA, Air India and the private operators offered both domestic and international services. The 449 airports were classified as domestic and international airports. The Ministry of Civil Aviation was responsible for the regulation and development of the industry and also for formulation of national policies and programs for development.

Though many players entered the deregulated market in the late 1990s, very few could sustain in the long run. Analysts felt that one of the main reasons was that the players had entered with a ‘fly-by-night’ attitude. None of the new entrants had invested in buying Aircrafts. All of them had leased Aircrafts, so that they could exit the market easily if the business was not profitable. Most of them faced financial problems as the Aircrafts were leased from international companies at global prices. Moreover, the maintenance costs were higher. In addition, most of the entrants were not experienced. Most of the new entrants came with a view that the industry was a money-spinner. However, the truth was that the aviation industry was highly competitive and margins were very low. Airline companies needed the financial ability to sustain huge losses during the initial years.

Strict government regulations were another major reason for the failure of several companies. Indian Airlines complained to the Civil Aviation Ministry that they operated under many disadvantages and wanted to compete on equal terms. The Ministry instead made it compulsory for private airlines to offer services on the unprofitable routes i.e., category II and III. When private airlines planned to increase their fleet, the Ministry initially took more than a year to grant permission for one additional aircraft and later completely stopped giving permissions for expansion. In addition, aviation turbine fuel prices were hiked by the government and were highest in the world.

2.

Customer service was given utmost importance by both Sahara and Jet Airways. The passengers could check in at any city counter if they were carrying only cabin baggage. They could also get two boarding passes at one check in if they were returning passengers. The carriers had separate customer support centers to answer various queries of its passengers. These centers also informed the passengers about any delay in flights. Passengers could also view the flight schedules on their cell phones. Sahara also offered conveyance to its passengers to reach the airports and also from the airports to certain points in the cities.
JA also allowed its business class passengers to customize their meals. Unlike IA, both JA and Sahara served meals in bone china crockery from the beginning. Both the airlines also offered various in-flight shopping schemes that offered premium products at a discount. The crew on the flight was also very well trained, smart and courteous. Passengers were given questionnaires that were later analyzed to overcome various loopholes in the service.

To retain its position in the highly competitive market, IA should take measures to enhance its customer service. In spite of losing significant market share to the private players, IA did not seem to be focussing on customer service. The only initiatives undertaken were the promotional campaigns, which included price cuts. It was reported that the national carrier’s crew was not polite and not very attentive towards its customers’ needs. Therefore, the airline might do well to take a look at its crew’s training needs. Though attempts to match the in-flight service levels of private players in the form of using bone-china crockery to serve meals had begun, IA needs to take many more initiatives to be able to compete with the private players.

3.

The competition in the aviation industry in India had intensified in the early 21st century and various campaigns were launched by private airlines. However, competition was the most aggressive in 2002 and many innovative campaigns similar to the ones in the global market were launched. JA and IA adopted the Advanced Purchase Excursion (APEX) prices schemes under which they offered about 50% discount on their fares if passengers booked their tickets 21 days in advance. JA introduced the APEX fares under the ‘Everyone Can Fly’ scheme and IA under the ‘U Can Fly’ scheme. IA also offered schemes like ‘Wings of Freedom’ and ‘Bharat Darshan’ which offered unlimited travel for a week provided passengers fulfilled certain conditions.

Sahara did not adopt APEX fares but launched innovative schemes like the ‘Sixer’ which enabled passengers to travel on any six routes for Rs 25,000. Sahara also initiated the cricket based campaign ‘Crickcitement’ with the captain of the Indian cricket team Saurav Ganguly as the brand ambassador. Launched to promote the various destinations connected by the airline, the scheme offered many gifts for the passengers.

One of the most innovative schemes in 2002 was the auctioning of tickets initiated by Sahara. There were two schemes under the auction system. The first one ‘Bid n Win’ offered premium products for low prices and the second, ‘Steal a Seat’ enabled passengers to auction for the ticket. Both the schemes became very popular with passengers.

Though the schemes were very innovative, it was being felt that they might not be very successful in the long run. The APEX scheme did not seem to be very convenient, as passengers had to plan their journey at least 21 days in advance. In addition, the airlines had to spend huge amounts on marketing and developing these schemes as well. Analysts felt that the schemes were viable only in the short term and such huge investments might not pay back in the long run.

Though the schemes might increase the customer base, the number might come down once the schemes are withdrawn, as most of the passengers using the various promotional and price reduction schemes were reported to be first time travelers who had shifted from the upper railway class travel to flight travel. Moreover, pricing might not be an effective marketing tool in the long run as the market seemed to be an oligopolistic one.

On the other hand, most of the airlines reported that the schemes had been useful, and that the customer base had increased. Most of them were also planning to increase their fleet size to meet the demand. However, industry observers felt that private airlines might not be able to continue these marketing ‘gimmicks’ for long as it would affect their financial position adversely.

4.

Airline companies in the Indian aviation industry can focus more on enhancing customer service (particularly in-flight services) and maintaining flight schedules, to enhance the market share and increase their user base. An airline company’s travel agent network plays an important role in its
success. More than 50% of the tickets, in particular for the business class are booked through travel agents. Therefore, having a good agent network is important. As most of the airline companies are decreasing their fares, the commissions (which are calculated as a percentage of the fares) to these agents will be affected. So, airline companies should introduce fixed commissions rather than as a percentage of the fares, and offer other incentives to the best agent.

Companies should also adopt strategies for the long run that would help decrease prices significantly. To do so, the airlines might need to invest huge amounts for buying Aircrafts and developing their own maintenance teams and reducing costs. The Internet can also be used to increase market share and promote various schemes, offer online booking and other facilities. At present, Sahara seems to be exploiting the Internet to the maximum extent.

Joint flight numbers code-sharing agreements might prove useful. Under such an agreement, two airlines, usually domestic and an international, market their seats jointly. An example of this would be the Indian Airlines and Air India on the Gulf route. Both market the seats and only one or the other flies. Private airlines could also explore the possibility of entering into such agreements. They could also enter into joint frequent flier schemes wherein passengers can collect miles on one airline and redeem on the other, preferably the international one. Such arrangements offer greater connectivity for the airline. The joint advertising and promotions also help curtail costs and thus increase profits.

Presently, JA seems to be better positioned than Sahara and might dominate the market in the next few years. JA already has a big fleet and it also has plans to buy Aircrafts rather than lease them. Moreover, the company has already established itself in the market for its superior service, latest Aircrafts, and punctuality.

FEEDBACK:

The case was discussed by a group of research associates and faculty members as part of a faculty development program at IBS Center for Management Research (ICMR), Hyderabad, India.

The group felt that all the three airlines had reduced their airfares to attract customers – primarily, those railway passengers who travelled by Class I AC. However, most participants felt that the companies were not successful in the ‘real sense’ as their profits would remain more or less the same. Even if the number of passengers increased, the cheaper fares would not translate into higher revenues. The participants added that if the number of passengers did not increase as expected, the players could incur heavy losses.

Participants felt that mainly the business class resorted to air travel in India and that is why airlines tried to concentrate on luring them with reduced airfares and other promotional schemes. They however felt that instead of concentrating only to the price aspect they should concentrate on the customer service and adhere to flight schedules. The members of the group agreed that in the long run, efficient customer service would give any airline edge over its competitors. Moreover, some participants were of the opinion that the airlines should concentrate on reducing their operating costs to increase profitability.
Additional Readings & References:

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