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Low Cost Carriers (LCC) in the Indian Aviation Space: A Contemporary Indian Perspective

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ABSTRACT

The paper discusses in case study format the present struggle in the low cost airlines market with players like Indigo, SpiceJet, Jet Airways, and GoAir etc. The case describes the contemporary events, challenges and opportunities prevailing in the Indian aviation sector with special focus on the low cost carriers (LCC). The case also outlines the implications of the factors affecting LCC operations for the contemporary Indian consumer. The present case study can be used for classroom discussions in marketing, strategic marketing and consumer behavior to describe the strategies of the LCC players in contemporary Indian market. The content of the case study can also be used to further develop detailed cases on the individual airline companies competing in the LCC space.

Keywords: Low cost carriers, aviation, and consumer behavior.

Introduction

Aviation is believed to be great catalyst for the economic growth, social development and tourism across communities, societies and economies. Air transport provides about 56.6 million jobs and contributes to more than USD 2.2 trillion in the global gross domestic product (GDP). It enhances connectivity and provides access to foreign markets (<http://www.ibef.org>).

Air passenger traffic in India is increasing on a tremendous pace. The sub-continent's airport infrastructure is undergoing modernization with the induction of most advanced facilities. It includes setting up of new Greenfield airports and installation of security, surveillance and air traffic navigation systems. According to the Minister for Civil Aviation, the Indian aviation sector contributes to approximately about 1.5 per cent of the GDP,

and can be considered to contribute to the economic development of the country. The country is estimated to have a huge air travel potential leading to a lot of growth prospects for the aviation sector.

The Indian Civil Aviation Space

The Indian civil aviation industry facilitates connectivity and access to international markets. Indian aviation attracts manufacturers, tourism boards, airlines, global businesses, individual travellers, shippers and businessmen both nationally and internationally. The sector currently supports 56.6 million jobs and accounts for over US\$ 2.2 trillion of the global gross domestic product (GDP). Air passenger traffic in India is increasing on a tremendous pace. The sub-continent's airport infrastructure is undergoing modernization with the induction of some of

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the most advanced facilities. It includes setting up of new Greenfield airports and installation of security, surveillance and air traffic navigation systems.

The civil aviation sector of the country has ambitious growth plans. The country envisions becoming the third largest aviation market globally, by 2020 from its present position of being the tenth largest market in the world. By 2030, the Indian is expected to become the largest aviation market globally. The vision looks possible based on the presence of a large consumer base that seeks value offerings in the transportation space, developments occurring to aid the aviation infrastructure requirements and government policies that looks promising not only to 'Make in India' but also stimulate sustainable market operations for both operators and the customers.

The Indian Market

By 2030, India is expected to have a working population that would be three times that of the United States of America (USA). The working population, comprising of people aged between 15 and 64 years is estimated to increase from 780 million in 2011, to about 900 million by 2030. The middle income class of the country is also expected to grow from 160 million in 2011, to become 267 million by 2016, thus becoming almost three times that of the German population.

The civil aviation industry in India has been characterized by growth and developments of low-cost carriers (LCC), modern airports, foreign direct investments (FDI) in domestic airlines, cutting edge information technology (IT) interventions and a growing emphasis on regional connectivity. Market size estimates put the Indian civil aviation industry to be amongst the top ten in the world with a size of around USD 16 billion (<http://www.ibef.org>).

Developments in the Aviation Sector

The aviation job market is expected to improve in FY15 with Air Asia's joint venture with the Tata group, a low-cost carrier (LCC) that began in June, 2014 (<http://www.ibef.org>). The foreign direct investment (FDI) inflows in air transport (including air freight) during April

2000 to July 2014 stood at Rs 2,348.12 crore (US\$ 383.63 million), as per data released by Department of Industrial Policy and Promotion (DIPP). The following are some of the major investments and developments in the Indian aviation sector (<http://www.ibef.org>):

- IndiGo has signed a US\$ 2.6 billion agreement with the Industrial and Commercial Bank of China (ICBC) to purchase 30 aircrafts.
- SpiceJet Airlines had signed a contract with GE aviation to use GE's Flight Efficiency Services (FES) to support its fleet of 52 Boeing 737 and Bombardier Q400 aircraft.
- Air Costa has made capital expenditure plan for about Rs 600 crore (US\$ 98.04 million) to acquire new aircraft to strengthen its fleet and expand its network.
- Boeing has plans of installing an aircraft manufacturing base in India. The initiative would be a part of the 'Make in India' programme,
- Vistara has signed inter-line agreements with Singapore Airlines and SilkAir.
- Tata Group launched its full-service Vistara airline on January 9, 2015. Vistara began with the Mumbai-Ahmedabad route and plans to expand to other cities later.

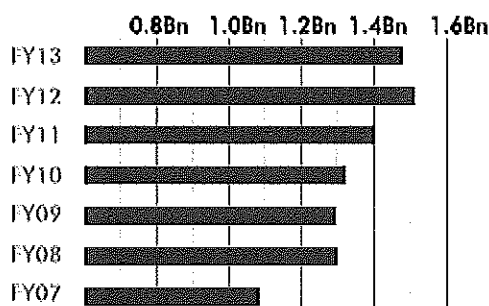
India's aviation sector has been expanding capacity. According to the insight generated by Centre for Asia Pacific Aviation (CAPA) India Aviation Outlook report, the last seven years have been very difficult for the Indian aviation sector with a cumulative loss of about USD 10.6 billion. In the FY 2013-2014, the combined loss of the industry stood at approximately USD 1.7 billion and the situation that is in line with the loss expectation of the industry at around Rs USD 1.3-1.4 billion of FY 2014-2015 (<http://www.businessinsider.in>). SpiceJet, an LCC player, faced an accrued net loss of Rs 1003 crore in FY 2013-2014, that was approximately five times more than its annual net loss of Rs 191 crore in FY 2012-2013 (<http://www.ibef.org>).

The only two airlines that have posted profits over the last couple of years are low cost carrier

GoAir and Indigo. GoAir has posted approximately Rs 100 crore profit in both financial years. Indigo Airlines posted whopping profits of Rs 787 crore in FY 2012-2013, its current fiscal profits are not available yet experts claim that it had stayed profitable this year too. Clearly, so far, the low cost carriers look to be in a better position over the full service ones.

The market shares and passenger load traffic of some of the leading LCC players in the aviation sector feature Indigo, Go Air, Spicejet and Jetlite. Some of the other airlines that operate in the aviation sector are Jet Airways, Air Costa, Air Asia and the public sector undertaking (PSU) airline, Air India. Passenger load factor measure the average occupancy rate of flights. The LCC players Indigo, GoAir, Spicejet and Jetlite have substantial passenger load traffic. Indigo has a market share of 29.5 per cent with passenger load traffic of 89.6 per cent while GoAir has about 9 per cent market share with about 85.8 per cent passenger load traffic. Jetlite on the other hand, has 5.4 per cent of the market share with 77.2 per cent of passenger load traffic. Spicejet has a market share of 19.8 per cent with 80.9 per cent of passenger load traffic. Jet Airways has 17.1 per cent market share with about 75 per cent of passenger load traffic. The public sector aviation player, Air India has about 19 per cent of the market share with about 82 per cent of passenger load traffic. The total aircraft movement recorded a CAGR of 8.4 per cent over FY2006-2013 as shown in Figure 1 below (<http://www.ibef.org>).

Figure 1: Aircraft movement in India



Source: <http://www.ibef.org>

The total passenger traffic in the country reached 159.3 million during FY2013 as illustrated in Figure 2 below.

Figure 2: Passenger traffic in India.

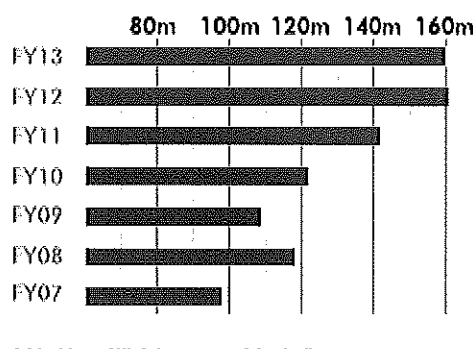


Figure 3: Yearly comparison of the market Share of the airlines in the Indian market.

Top of the Lot

Market Share in %	Apr 2014	Apr 2013	Mar 2014
IndiGo	31.6	29.8	30.3
SpiceJet	17.9	19.6	17.8
Jet Airways Group (Jet Airways + Jet Lite)	21.8	22.62	2.5
Air India	18.3	19.2	20.4
GoAir	9.5	8.8	8.6
Air Costa	0.9	—	0.4

IndiGo has been adding one plane every month and had 13,777 departures in April against 11,426 in the year-ago month. SpiceJet had cut capacity in April and had 9,190 departures during the month as compared with 9,438.

Source: <http://articles.economictimes.indiatimes.com>

IndiGo, one of the leading players in the low cost carrier (LCC) space of the country achieved the leadership in the domestic passenger aviation market in April 2014, garnering 31.6 per cent of the market share carrying almost one-third of domestic air travelers during the month. The airline gained from the sales promotion that was initiated with the discount schemes prevailing in February spanning for travels done till travels done in April. The airline carried 16.8 lakh passengers in April that was 11 per cent more passengers than 15.1 lakh passengers that was carried by the airline during the same month of the previous year. The Gurgaon-based IndiGo airlines had increased its capacity that helped it increase its passenger numbers. Indigo added around one aeroplane monthly, having around 13,777 departures in April as compared to 11,426 departures of the same month of the previous year. In spite of the positives, there was a reduction in the load factor of Indigo in April that was at 76.9 per cent as compared to 83.3 per cent of the previous year. IndiGo contributed to the increase of air travellers to

about 53.2 lakh as compared to 50.8 lakh passengers reported for the same month of the previous year.

SpiceJet, on the other hand, cut their capacity in April 2014 and had 9,190 departures during the month as compared with 9,438. The airline carried about 9.5 lakh passengers, a 4 per cent reduction as compared to the passenger traffic carried by the airline in the previous year. The airline had set off five discount windows between January and March but managed to achieve a market share of only 17.9 per cent as compared to 19.6 per cent of the same month a year earlier. The lower capacity did not help in SpiceJet's occupancy rate or load factors, which fell marginally to 73 per cent in April as compared to 75 per cent of the same period of the previous year. The Jet Airways group (including Jet Airways and JetLite) took the second spot in terms of market share for April with Jet Airways securing a market share of 17.5 per cent, while JetLite achieved a share of 4.3 per cent, thus making the Jet Airways group achieve a combined market share of 21.8 per cent that was of course marginally lower than the 22.6 per cent that was achieved by the group a year earlier. The LCC player, JetLite, which operates under the Jet-Konnect brand, managed to fill up its flights more with a 76 per cent load factor in April compared with Jet Airways, which had a load factor of 70.9 per cent. Air India also saw a reduction in its market share erode from 19.2 per cent of the same month of the previous year to 18.3 per cent in April 2014. Air India carried about 9.74 lakh passengers during the month with an average load factor of 73.3 per cent. The Mumbai-based low-cost carrier GoAir increased its market share in April to 9.5 per cent.

Conclusion

Indian consumers look for value for money as one of the important aspects of choosing service providers. Almost forty per cent of the large Indian population is estimated to be the upwardly mobile middle class who seek cheapest options that could be available for air travel. There is large untapped potential for growth in the Indian aviation industry due to the fact that access to aviation is still a dream for nearly 99.5 per cent of the Indian population.

Developing appropriate policies blended with focus on quality, optimizing cost and stimulating passenger interest, could lead India to be in a favorable position to becoming the third largest aviation market by the year 2020 and the largest aviation market by the year 2030. The case traces the developments in the Indian civil aviation sector especially the low cost carriers of the industry who are expected to play a major role in the development of the air travel market of the country. As the late Prof. Theodore Levitt pointed out way back in the seventies, marketers have to avoid their own 'myopia' (Levitt, 1975) in order to stay out of trouble. He illustrated how the myopic view of the railroads business stagnated its growth, as they failed to perceive that they were actually in the 'transportation space', instead of just being in the 'railroad business'. A product oriented definition of the business led to a situation where the railroads saw 'cars, trucks, airplanes, even telephones!' fulfilled the needs of customers. Prof. Levitt also goes on to illustrate how Hollywood managed to 'barely escape' the onslaught of television. He highlights how Hollywood had made the cardinal mistake of defining itself as being in the 'movie' business, instead of understanding that it was in the 'entertainment business'. Prof. Levitt claims that Hollywood thus suffered from a 'fatuous contentment' with its product-centric view that led it to view the television sector as its competitor instead of looking at it as a source of opportunity to extend its entertainment business. Hollywood later embraced television and thus sustained itself rather than fade into obsolescence.

The classic five forces of strategy enunciated by Michael Porter (1996) are relevant as marketing strategy will have to formulate relevant tactics to 'neutralize' supplier power, 'counter' customer power to ensure loyalty by providing value, handle established players in the sector, and stave off threats from potential entrants while limiting the threat of substitutes. Thus marketers are advised to avoid marketing 'myopia', understand the contemporary nuances of their business and formulate strategies to ensure their success and sustainability. At the micro level the 'core competence' (Prahalad & Hamel, 1990) will have to be managed by organizations that seek to succeed. Widening the horizon within a

corporation will be about the need to seek out opportunities from core competence instead of just having an 'SBU' perspective. Marketers will need to be clear of their strategic intent and identify their core competencies. There is a need to invest in suitable technologies that would leverage the core competencies that have been identified and also invest 'resources through business units' and strike strategic alliances (Prahalad & Hamel, 1990). Finally the authors highlight the importance of cultivating a 'core-competency mind-set' within organizations that can be facilitated across organizational boundaries with a long term perspective.

Every marketer will need to make the effort to seek out their 'blue ocean strategy' (Kim & Mauborgne, 2004) in order to break out of the clutter of competitive intensity. Kim and Mauborgne advices that creating 'blue oceans of uncontested market space', will be where the real opportunity will have to be sought as competing in overcrowded industries is unlikely to sustain high performance. They provide a lot of examples from the automobile, computers, and movie theatre space where marketers sought out their 'blue ocean' created either by a new entrant or an incumbent. Most of the blue oceans that have been created in the global marketing space mostly emanated out of 'value pioneering' instead of the expected 'technology pioneering'. Thus deciphering customer value is the golden compass for success.

The Indian civil aviation operators would hence need to infuse the best of their customer-centric knowledge capital, leverage their technical and operational competencies in order to sustain and build on the market potential of the country. If the country aims

to realize its vision of becoming the third largest civil aviation market by 2020 and become the largest market by 2030, the road to that effect will have to be charted out by planning with utmost precision based on sound management principles and executed with an unrelenting focus on the needs of the contemporary customer.

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