AIR INDIA – FIGHTING FOR AIR SUPERIORITY

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ABSTRACT

This paper briefly traces the background of Air India, India's oldest airline and state owned flag carrier. It charts recent historical events and analyses unique challenges faced resulting from its ambitious fleet expansion, burgeoning competition from newer entrants and the budget sector, excessive debts, overstaffing, and its subsequent merger with Indian Airlines with a view to understanding Air India's condition which led to it running yearly losses for the past decade. All these issues raise fundamental questions about reinventing its diminishing quality of service, which initially set it apart, and is united by the need to establish a reliable, safe, and secure service. It finally attempts to envision the possible areas of improvements that may raise more revenue and remove threats that affect its growth which involves reducing HR, expanding network routes and rebranding its image without resorting to government intervention to bail it out and restore financial equilibrium.

INTRODUCTION

Air India, currently the oldest and largest airline of the Republic of India, is India's state owned flag carrier. Established in 1932 by J.R.D. Tata, under his helm it rose to become among the world's top airlines and the top of the league in Asia.

THE GLOBAL AVIATION INDUSTRY

It is one of the largest and fast growing industries worldwide carrying 1.5 billion passengers last year. Highly condensed and mature industry with shrinking profit margins being an extremely capital intensive industry and incurring substantial fixed costs which deters new entrants and lowers rivalry. High exit barriers, presence of substitutes and cyclical business forces most airlines to diversify through freight business and forming of alliances.

With an average 7% p.a. growth forecasted due to rising international investments, supply chains, tourist destinations, low cost airlines etc. air travel has evolved, and no longer restricted solely to the elite or developed economies only. The post 9/11 turbulence and worldwide economic recession, followed by skyrocketing fuel prices compounded by emergence of the budget sector led several airlines to collapse with a whopping $9 billion loss forecasted for airlines worldwide.

THE INDIAN AVIATION INDUSTRY

One of the fastest growing industries globally, this sector is on a boom with 2007 seen as the apex ever since opening up to private carriers. It generated total revenue of $7 billion in 2009, (9% annual growth) registering a CAGR of 17.17% for the period 2000-2009, with passenger volumes reaching 73.8 million. It is forecasted to accelerate with an anticipated CAGR of 20.8%, industry value of $17.9 billion and volumes of 156.2 million for the five years up to 2014, driven by economic growth fuelled by

privatization and emergence of low cost carriers. The domestic segment was the largest segment in 2009, with 55.4 million passengers (75% of total volumes) with an estimated 51% p.a. growth envisaged whilst the international segment had a volume of 18.4 million passengers (25%) and growth estimated at 26% p.a.

AIR INDIA – "A PALACE IN THE SKY"

Headquartered in Mumbai, India, the airline was established in 1932 by Mr. J.R.D. Tata who remained chairman for 25 years. His experience, status, and deep involvement, even after nationalization in 1953; was successful in shielding the airline from unwarranted political interference. The result was excellent service and an unusual mascot called the Maharajah. Air-India was distinguished by its core competency which was a combination of western efficiency and eastern hospitality with Indian decor and cuisine.

In 1962 Air India achieved the distinction of being the world's first all-jet airline with a fleet of six 707s and the 747s. Its current diverse fleet boast of one hundred and fifty three aircrafts, of which ninety-five were owned and fifty-eight on lease- (including - eight B777-200LRs nine B777-300ERs, fifteen Airbus A-321s and sixteen A-319s.) and it endeavours to became a member of Star Alliance by 2011 to improve its international reach.

Post September 11 and worldwide economic recession; the global aviation scene transformed with the dawn of the budget sector. In an effort to bounce back, the company merged with Indian Airlines in 2007 presumably to enhance competitiveness by leveraging economies of scale, maximizing fleet and skilled staff utilization. Post merger, it connected 96 destinations worldwide in 24 countries across Africa, Asia, Europe and North America and entered into code-sharing arrangements with airlines to seamlessly transfer passengers to destinations; with Frankfurt serving as its operational hub.

COMPETITIVE LANDSCAPE

The recent growth of budget airlines and senseless price cutting intensified rivalry on the domestic front forcing some carriers to differentiate by offering exclusive or better quality service to entice passengers or by mergers and acquisitions to gain prominence. The threat of bankruptcy meant that airlines had to raise fares and add fees, which ultimately reduces customer satisfaction and loyalty. In terms of value, India currently accounts for 8.6% of the Asia-Pacific regional market. The top 3 airlines by domestic market share in 2009 were Jet Airways (25.4%), Kingfisher (23.9%), Air India (17.5%), followed by the 2 leading low cost carriers, Indigo (13.9%) and Spice Jet (12.4%).

AIR INDIA UNDER PRESSURE

Despite India's huge potential for growth in its airlines industry, the past decade witnessed Air India struggling to survive and mounting yearly losses. Despite the best intentions of the merger, the union of the two large Indian carriers; was unable to produce the synergies expected as evident in the financial results and the post merger challenges the company faced. While the merger was complete, in essence, both airlines still utilised different aircrafts and continued operations independently which later became the largest hurdle in joining Star Alliance, to provide seamless route services to destinations.

Being legacy carriers, the combined entity was people-intensive and overstaffed by 50%; with double the staff costs than other private carriers operating in India. When all competitors were sacking staff, it was mounting its overheads due to union pressure which impacted productivity and accountability. Soon regular customers ceased flying Air India sensing the declining quality of service, arising from low staff morale. The lack of continuity, with four CEO's been appointed in less than two years reflected a dearth of clear, stable leadership.

Being state owned, the airline was susceptible to the unstable Indian political environment (Gujarati riots, tension with Pakistan, 9/11) and subject to heavy government interference and corruption which significantly affected air travel. Strong labor regulations and union presence made its management complacent, inflexible, and unable to compete with private carriers. The Indian government granting entry to foreign airlines led to a 250% glut in seat capacity by Gulf carriers permitted to operate to 15 destinations within the country. The loss of income in the aftermath of 9/11 and SARs outbreak led to slump in the airline industry and flights being cancelled which resulted in higher operational costs due to low demand and higher insurance costs prompting staff layoffs and fuelling union problems.

Although post merger the airline increased its operating revenue; its operating expenses outpaced it, leading to escalation of losses over the past 3 years. The decision to purchase new aircrafts worth ₹ 440,000 million, without considering whether it could internally finance the large purchase led it to soon running to the government for bailout. As of May 2009; with a working capital of ₹ 16,500 crore but only an annual turnover of ₹ 15,000 crore, Air India was in dire need of a ₹ 15,000 crore bailout package to avert bankruptcy. In July 2009, a restructuring plan was developed by State Bank of India to turn around the losses. Following this, Air India implemented a fleet optimization plan to lease approximately 35% of its fleet. In an effort to stay afloat, it further planned on issuing state guaranteed bonds in combination with its bailout plan.

India, a land of varied religions and castes, to cater to the ever changing passenger tastes and habits is a complex task especially in the endeavour to trade off low fares and less frills with service quality. The last nail in the coffin was the unfortunate Air India Express crash in May 2010, which would inevitably hurt the brand for many years to come.

BAILING OUT THE MAHARAJA

At the start of the decade it was posting higher profits, ending 1993 with a record surplus of $105.7 million, more than double the previous year's total, on revenues of $773.26 million but its slide began in 1994 when profit dwindled and spiraled downwards to losses in 1998. The question that perturbs many is how an airline that made a record profit in 1992-93 and had huge reserves had became so financially volatile.

With an uncertain future Air India was anxiously watching its regional rivals overtaking in terms of routes, fleet, and passengers. Its market share plummeted by 9% in the domestic market and 5% internationally with recent headlines of declining growth, disappointing earnings, excessive debts, mismanagement of staff, service, leadership and security.

With the alarm bells ringing and speculation rife that Air India was nose-diving and resorting to government intervention to bailing it out; the company is in dire need to reinvent its strategic plan to secure its position; and perhaps even need to be privatised in order to succeed.