PGDM (RM), 2018-20
Marketing Management-I
RM-102
Trimester – I, End-Term Examination: September 2018

Time allowed: 2 Hrs 30 Min
Max Marks: 50

Roll No: ______________

Instruction: Students are required to write Roll No on every page of the question paper, writing anything except the Roll No will be treated as **Unfair Means.** All other instructions on the reverse of Admit Card should be followed meticulously.

Sections	No. of Questions to attempt	Marks	Marks
A	3 out of 5 (Short Questions)	10 Marks each	3*10 = 30
B	Compulsory Case Study	20 Marks	1*20 = 20
		Total Marks	**50**

Section A

Attempt any three questions. Each question carries ten marks.

Q1. Which segmentation variables would you consider important for segmenting the market for a company that is planning to launch 'Premium Tooth Brush' as its new product? Elaborate each variable with its relative importance for segmentation and discuss how it can be important for the company to tap the market potential and increase the sale.

Q2. Where does the product 'wet wipe' fall on the product life cycle stage? Based on their position on the PLC, discuss the different strategies adopted by Grasim Industries Ltd. to be a market leader for its 'Kara' brand amidst the present competition.

Q3. In the event of failure of direct methods, indirect methods can be used for generating new product ideas. Do you agree with the statement? Explain the methods and sources of new product idea for fast moving consumer goods like an 'herbal tooth paste'.

Q4. When the Indian market is price value conscious, companies cannot really go and persuade the customers to pay more for better service. Do you agree? Give your rationale behind the quality insensivity of Indian customers.

Q5. A multinational company, manufacturing sports shoes and entering the Indian market for the first time, has appointed you as its marketing manager. Prepare a marketing plan keeping in mind the influence of internal and external factors.

Section B (20 marks)
Case study (compulsory)

Air Deccan

Implementing the Low-cost Model in India

LCCs like Air Deccan are pinning their hopes on railway travellers, who they believe are going to hop on their short-haul flights. Is it a reasonable expectation? When people have the patience and the planning horizon to book their railway berths 60 days in advance, can they be expected to have the fickleness to walk into an airport and board a flight without any planning? Most Indians would be very wary of travelling without planning, because Indian railways has made it impossible for Indians to travel without planning for so long. And how many people are travelling in air-conditioned coaches anyway?

And are Indians eager travellers at all? Not many Indians travel for pleasure. They travel because they have to, and since travelling itself is a pain for most Indians, they are willing to suffer some more in the process of travelling. Are such people really ready to enjoy the pleasure of flying? And why should they fly to save time, when they would be stuck in traffic jam just when they get out of the airport? Is flying likely to become popular just because of reduced prices, when everything else associated with travelling remains the same?

So are the LCCs basically targeting the same customers that Indian Airlines has been serving so far? If this is true, are there enough customers for all the LCCs? And do these LCCs really have a low-cost structure? Even after three decades, no airline has been able to truly follow the Southwest airlines model. Why? Because being a Southwest airline is not about a business model, it is about an ethos and a spirit. Does Air Deccan have 'low-cost' in its veins? Or is it just copying some of the most obvious features of South-West airlines? And who will develop airports in small cities? And how soon? Surely, a LCC model cannot succeed when the carriers keep flying just between big cities?

And why this sudden rush to become a LCC in India? This business has never been a money-spinner anywhere in the world. Except for one airline.

The Indian skies have started to look like the more cut-throat American market, with an assortment of air fares from different airlines being rolled out at regular intervals. Year 2006 seems to be more promising for the domestic aviation sector than 2005, which saw a bevy of new low-cost airlines cramming up the airspace and giving formidable challenge to the conventional, full-fare airlines.

As the competition gets fiercer, 2006 would see further reduction in fares and also the opening up of new routes. Airfares on metro-to-metro routes are expected to come down in 2006, largely due to the competition driven by the IPO-powered aircraft acquisition spree. Experts however opine that non-metros may not see much of fare reduction. Also domestic travel would grow at the rate of around 25 per cent, while international traffic would grow at 15 per cent.

Air Deccan, India's first low cost carrier is a business unit of Deccan Aviation Private Limited. Air Deccan has grown rapidly since in first started its air operations in 2003. It had achieved a market share of 12% for October 2005, making it the second largest privately owned airline in the country. The growing Indian economy and the increasing number of middle-class in India has greatly helped its growth.

Earlier, air-travel in India was limited not by an economic barrier, but by a 'caste barrier', which restricted the conception of the air-traveller as a wealthy, sophisticated urbanite who needs air-conditioned airports and five-star in-flight service. Rather than accept this limited view of the flyer and compete for a slice of the pie, Air Deccan began by daring to visualize the common man flying and figuring out how to get him in the air.

Air Deccan had a three pronged strategy from the beginning. One, that if was meant to be a lowest-cost, no-frills service provider. Two, it would focus on connecting smaller towns and areas that were not really covered by other

airlines frequently. The third part of the strategy was if the airline was to offer lowest fares, it also had to be low on costs. Therefore, cost cutting was an obsession.

Vision: To be the preferred airline of air traveller in India.

Mission: To demystify air travel in India by providing reliable, low-cost air travel to the common man by constantly driving down the air fares as an ongoing mission.

THE INDIAN AVIATION SECTOR

The Indian civil aviation sector is witnessing unprecedented growth with a host of private airlines taking to the skies. This has altogether redefined the way people travel in India. More and more middle income travellers are preferring aircraft to trains. As the prices of airfares drop and an increasing number of people travel by air, the aviation industry is in for good times.

The Indian aviation sector indicates the birth of a new industry. Aviation is no longer a taboo and it is now becoming an integral part of the country's economic development.

Air Traffic

In 2004-05, Indian airports handled around 6 crore passengers, a growth of 21% in terms of traffic volumes over 2003-04. Between April-October 2005, traffic climbed another 19% (over April-October 2004) with 3.85 crore check-ins. Domestic air passenger traffic grew over 28% to 425,000 in October 2005, compared with 331,000 in the same period in the previous year. A CAGR of 25% over the next five years is expected. Indian (erstwhile Indian Airlines) operates over 300 daily flights. Jet operates 290, and its new acquisition, Sahara, another 250-odd. Kingfisher has 100-odd daily flights and Air Deccan has 200 while SpiceJet has around 40 flights.

The last year, 2005, saw a bloodbath in the Indian skies. Only the frequent flyer gained out of this competitive war. Consumers had been wooed for the first time with airlines dropping tariffs by half in the last 12 months.

The highest ever growth rate in passenger traffic was mainly due to rock bottom fares offered by low-cost carriers, which had started full-fledged operations in the last few months. Middle-class consumers shifted in droves from making arduous train journeys to discovering the joys of air travel, often at rock bottom prices. And new low-cost carriers had taken flight with increasingly lower fares, which enticed the market to grow further.

Factors leading to expansion

The most likely reasons that have contributed to this growth in number of air travellers in the recent years are:

- The high rate of growth of GDP (by more than 7% per annum) over the last 2-3 years. As is well-known worldwide, the growth in air travel bears a close relationship to GDP growth. (In fact in mature travel markets, air travel generally grows at 2 to 2½ times the GDP growth). The Indian air market is still in the development stage and the country can expect to witness a robust rate of growth as India's economy expands and continues to grow at a high rate over the next few years.
- The growing proportion of high income groups in the Indian population and the expanding volumes of affluent middle classes with high disposable incomes.
- The increased inflow of tourist traffic into India as also the increased propensity of Indians to travel abroad on holidays and on vacations.
- The growth of domestic tourism.
- The increased capacity being provided by the airlines and the increased proliferation of low fares such as the Advance Purchase Excursion Fares and Check Fares, resulting in a shift of premium class train traffic to air travel, and the increased propensity to take short-duration trips among the upwardly mobile younger executives.

CUTTING COSTS: BUSINESS MODEL

A traditional airline has its frills – hot meals, frequent flyer programs, wide legroom, and a full complement of air-hostesses. A low cost carrier does away with these.

No meals on board means the extra space for storage is not needed. Instead, seats can be added. In the typical Jet and Indian Airlines layouts, one could increase the seat factor by as much as 20% by pulling out the business class, reducing the seat pitch (how far the seat can incline), and eliminating a couple of galleys. If one can put in three extra rows, then 18 (6 × 3) seats more can be added. In a 120-seater aircraft, if there are 18 seats more, 15% addition is possible. Besides, there is no time wasted on cleaning the aircraft. The result—quicker turnarounds at the airports. Also, there is no need for a crew of more than six, or even four, members.

While most full-service airlines like Jet take at least an hour to leave an airport after landing there, Air Deccan can do it in 15-20 minutes for ATRs (and about 30 minutes for its new A320 service). So, if Deccan does six sectors a day, it can fly one additional sector a day. This allows it to fly 20-30 per cent more than a full-service airline. On an average, the conventional airlines fly their aircraft for 8-9 hours a day, while a low-cost carrier is able to keep its planes airborne for 11 hours a day. It is only by more hours of flying that an airline can give a lower price. In fact, it is able to make the same revenue with fewer aircrafts.

Squeezing out more from the capital asset simply lowers the fixed costs. Even other costs, like costs of the crew, hangerage or even finance costs are somewhat lower in these airlines. All this adds up to close to 40-45% less depending on how much extra the airline can fly. And if the airline uses the same type of aircraft in its fleet, it can move pilots and cabin crews around, and won't have to worry about carrying spares for three different kinds of aircraft. That generates economies of scale.

In Europe as well as the US, low-cost airlines have one more way to shave off costs, but one that Deccan or its followers will not have in India for some time to come. These airlines avoid flying into mainland airports and, therefore, don't incur high parking and landing fees. So, instead of Heathrow in London, a low-fare airline would use Luton or Stansted. India does not have too many secondary airports, and this is considered a major constraint. The Naresh Chandra Committee, suggested a compromise — lower landing and parking charges for low-cost airlines.

A low-cost airline then tries to save on distribution costs, which can be 11-15% in a conventional airline. They do this by not going through the travel agents and the existing central reservation systems. Instead, they sell through the Internet and call centers - EasyJet in Europe even has its website address painted on its plane. These airlines don't issue a ticket, as it costs to print, mail and process tickets. Instead the traveller is given a booking number when making a reservation. Passengers have to quote this number at airport check-ins, and present their photograph ID to collect their boarding pass.

Even the logistics model works differently. A low-cost airline offers a point-to-point service, rather than the hub-and-spoke concept followed by conventional airlines like Jet.

The model could transpose well into India. It is partly a question of discomfort. People may not want to sit for too long in cattle class without meals, which is why, globally low cost airlines ply on short-haul routes (which typically last 4-5 hours). The longest flight in this country, between Delhi and Thiruvananthapuram, is close to three hours.

Over the next few years, one can expect to see a complex system of low-cost airlines. Depending on the amount of capital they are able to raise and the business plan they formulate, some will ply on the trunk routes, others on the Class A and B towns and then, some will operate purely as air taxis. The main idea would be to attract consumers who travel in AC coaches in rail.

A low-cost airline has the advantage of being a model that throws up cash much faster than its full-service counterparts. If Deccan can survive the price war for the first year or so and scale up, it would soon reach a size where Jet and the other competitors cannot undercut without losing massively in the bargain. If, Air Deccan scales up fast to 100 planes or so, the others cannot undercut it without maiming themselves. The only danger is that despite its scaling up, its success is likely to attract more imitators. In the low-price sector, only those with the lowest costs survive in the long run, and scale does matter in delivering the lower costs. In the short run, all sorts of dislocations happen until the newcomers start running out of money. Besides, any frills that adds costs and reduces price competitiveness is a bad trade-off. If one can get customers on price, they could be lost on price too.

However, there are several peculiarities in India that Deccan needs to keep in mind. Aviation turbine fuel is 2.5 times more expensive in India than anywhere else in the world. Navigation charges are 60% higher than in other countries. And landing fees at Indian airports are 70 to 80% higher than at airports round the globe. Due to these it was anticipated that by 2010, there will be just three large LCCs in India, with another three or four smaller, regional players. However, Air Deccan's business model was a textbook case of how to operate an LCC, with a few significant differences.

THE MARKETING STRATEGY

Air Deccan was aimed at the common man, encouraging him to fly. Air Deccan did to air travel what Reliance IndiaMobile did to the mobile phone market. They entered a very elitist and high priced market with radically accessible rates and the segment opened to one and all. Air Deccan too makes it possible for the average middle-class Indian to dream of doing something he never thought he could ever afford to do – fly.

The advertisement had the baseline 'Everyone can fly'. Rather than positioning Air Deccan as a 'cheap' airline, it fit into the 'affordable for all' slot. The ad accomplished the task of creating an everyman's brand with dignity.

This was the first time an ad was promoted like a film. Hoardings and posters at airports announced the telecast times as part of the pre-publicity campaign. Trailers on the Internet and mobile phones added to the buzz and for about 10 days before it went on air, Air Deccan distributed leaflets to 6,000-7,000 passengers everyday. There was even an Internet contest where tickets were being given away as prizes.

Air Deccan advertised on television, which considerably increased the company's ad spend from the earlier Rs 2 crore. The simple consumer proposition and an eagle eye on costs helped Air Deccan take off in a big way. The longest ever ad in the Indian market was in the form of an emotional storyline, that left a lasting impression.

The ads simply carried the logo, a single word tagline, "Simplify", and flight schedules and ticket rates. There was no special effort towards branding in the first year. The company rested on differentiated offerings – cheap air travel and access to smaller towns to create the brand.

Tariffs were at least 50% cheaper than scheduled airlines and only a little higher than rail travel. Air Deccan offered 25 per cent seats per flight at Rs 500 to Rs 700. Currently the airline flies 96 to 100 flights a day, utilizing almost full capacity.

Air Deccan is exploiting every possible revenue source. The complimentary in-flight meal has been done away with, instead, the airline sells food and beverages on flight. Then, advertising is permitted inside the aircraft and even the in-flight movies have sponsors who advertise during commercial breaks. While advertising contributes 3 to 5% of the total revenues currently, in-flight sales contribute 5 or 6%.

Personnel/Staff

Air Deccan has adopted a 'lean-and-mean' approach to staffing and aims at maintaining a low aircraft-to-employee ratio. The company has some of the most experienced administrators, aircrew and engineers on its rolls. A good work culture coupled with a skilled workforce is the backbone of the company.

Fleet

Air Deccan has 48 seater ATR-42s in operation in its fleet. In India, this aircraft has already proven to be a highly successful one, both for its efficiency and cost effectiveness. It is presently being used by both, Indian Airlines and Jet Airways.

Air Deccan also has Airbus A-320 – 180 seater aircraft. These new generation fly-by-wire aircrafts, with plush leather seats and drop down televisions, have brought about low-fare inter-metro connectivity, bringing various destinations on the airline's air map. These aircrafts provide in-flight entertainment for the passengers – a first for any domestic airline in India.

The airline has recently acquired ATR 72–500 aircraft. These are 72 seater aircrafts with superior engine power and improved interiors provide for a very comfortable flying experience. The aircraft is very reliable with highly improved productivity.

Air Deccan is also planning to purchase 30 more Airbus A320s at a list price of $1.5 billion. The purchase deal was signed with Airbus Industries recently. Air Deccan had earlier placed orders for 32 Airbus A 320s and 30 ATR 72-500s. This fresh order will take the total number of aircrafts to 92.

Air Deccan currently has a fleet of 24 aircrafts comprising 7 Airbus and 17 ATRs. After the acquisition of the new aircrafts, the fleet size will go up to 110-115 planes by 2012-13. Next year, the airline will receive eight A 320s, followed by ten every year thereafter, taking the fleet size to 32 by the end of 2006.

MRO (maintenance, repair and overhaul) is the buzzword in the domestic aviation industry now, even as private and national airlines are busy expanding their fleet size. Jet Airways, Kingfisher Airlines, SpiceJet and Air Deccan are in talks with foreign MRO companies. Not to lag behind, domestic MRO players are also looking for strategic alliances for upgrading their facilities.

New Routes

Air Deccan Flies to 57 Destinations in India (as of Feb 1st 2006), more than any other airline, private or domestic in India. Air Deccan started flying from Port Blair to Chennai from March 1st 2006.

Air Deccan is all set to start daily flights in the Nagpur-Kolkata sector. Its other two flights are being operated daily in the Nagpur-Mumbai and Nagpur-Hyderabad sectors. Other low cost airlines such as GoAir and Spice Jet too have announced plans to include Nagpur on their respective air maps. However, they are yet to commence operations and are busy strengthening their networks on other routes which have proven more financial viable.

Air Deccan is looking at a new sector in Madhya Pradesh. After successfully by launching low-cost flights in Indore, Jabalpur and Bhopal, the airline now has plans to connect the state with southern India. Private operators have skipped Madhya Pradesh in the absence of proper response from the state government. The aviation turbine fuel surcharge is also higher in Madhya Pradesh.

IPO

Deccan Aviation, which operates Air Deccan, the low-cost budget airline, entered the capital market with a public issue of 24,546,000 equity shares of Rs 10 each through the 100% book building process, to fund its expansion. The issue constituted 25% of the fully diluted post-issue paid-up capital of the company.

The expansion plans include setting up of a training centre, a hangar facility for basic and medium-level maintenance checks at Chennai and creating infrastructure at airports, and also cover market development initiatives.

COMPETITION FALLOUT: THE POSSIBLE FUTURE

But is the party in the air nearing an end? Will air tariffs become costlier? Will some low-cost carriers close shop, unable to

stand the pressure of competition? Several questions arise about the LCCs that make one ponder over this issue.

Infrastructure

The major problem is the lack of infrastructure in India to cope with the projected explosion. There isn't a single Indian airport with more than one runway, and none of the runways can handle wide-bodies like the A380. There are not enough parking bays. Air Traffic Control is swamped trying to manage so many flights. Ground facilities are insufficient to process the current passenger volume. There aren't even enough pilots or traffic controllers. Thus, delays are endemic.

Aviation Turbine Fuel costs about thrice as much in India as it does internationally due to huge state excise imposts (averaging 25-30 per cent). The extra holding patterns on delayed flights add several thousand crores to fuel bills. Cutting state excise rates is a debatable issue because of Centre-state relations.

There isn't much scope for operators to pass on costs to customers because the demand has been created by price-cuts. A low-cost Delhi-Bangalore-Delhi ticket (each way 2,600 km) is available between Rs 7,000-7,500, which compares reasonably with a low-cost New York-Los-Angeles-NY ticket at $265-300 (distance each way 4,500 km). In fact, competition may force rates down further.

Hence, India's airlines will operate on thin margins with big infrastructure constraints for several years. Even if the government pushes its modernization plans through in Delhi, Mumbai, Bangalore, Hyderabad, Kolkata, etc., it would still take around 3-5 years for improvements in airport infrastructure to be implemented.

In the best environments, with low ATF tariffs, large traffic volumes and great airport infrastructure, aviation is a marginally profitable business. Airlines have a history of reporting large losses and declaring bankruptcy in developed economies like USA, Canada and Australia.

Industry Shakeout and LCC Response

In India's current environment, there could be a catastrophic shakeout. More people will indeed travel by air but it would be a huge risk to bet on the future of air-travel operators.

The first signs of the shakeout started with Jet Airways buying out Air Sahara in the third week of January, 2006 for a staggering Rs 2,500 crore. The joint market share of Jet is over 53%. There are fears that the combine will use its clout to corner a large part of the airport infrastructure, stifling other low-cost carriers and therefore could compel air tariffs to rise once again. The country's top low-cost carriers are deciding strategies to take on their new tougher rival. The concern is that unlike in telecom where the independent regulator could be petitioned for any wrongdoing, the aviation ministry (which also controls an airline) hardly gave a fair hearing. And the government has been using infrastructure shortages as an excuse to force newer airlines to fly non-metro routes by not giving them parking bays in the metros. For instance, in the Delhi-Mumbai route, which constitutes 50% of the total traffic, the merged Jet clinched over 50% of the parking bays, and Indian Airlines 35%.

Due to these reasons, low-cost carriers have mooted the idea of forming an association to ensure that they don't lose out in the scramble for air seats. But they are also looking at ways to cut costs, which can only happen if they share resources. That is why the new alliance is putting up a blueprint for sharing infrastructure among its members, getting into interline agreements between themselves, and also avoiding conflicting departures on routes so that they can fight the likes of Jet more effectively by not fighting among themselves.

But it was an uneasy alliance. Cracks started to show a day after the four (Kingfisher, GoAir, Air Deccan, and IndiGo) decided to agree upon the structure of the association, with Air Deccan deciding to walk out. Air Deccan, which controls 12% of the Indian market and is the largest low-cost carrier, decided to stay away because the association was directed against only one player — Jet. The airline was against cartelization. Instead, Air Deccan was in talks with rival Jet Airways for a possible alliance that would include sharing resources as well as interline agreements.

Customers

Shakeouts and consolidation could be bad news for consumers as well. The free fall in air tariffs is probably over. What one might see is some price stability, and even a hike, should fuel prices continue to rise.

Additionally, skeptics assert that passengers who have been lured into flying by low fares cannot be treated as gen[illegible]e air travellers for the purpose of asserting growth. However, the Air Deccan MD feels that cheaper fares have given new travellers a taste of flying, and they would not let go off this opportunity especially as income levels improve and the fares stay affordable. While, progressively airlines can expect the fringe end of the market to get stretched, if fares rise, they should be prepared to lose many of the temporary converts to flying from the rail and surface travel space.

Future Routes

New domestic carriers like Kingfisher Airlines, Air Deccan and Spice Jet may be allowed to fly on international routes

sooner than anticipated, as the government is considering a proposal to lower the eligibility criteria. The main criteria at present are a minimum five years of continuous operation and a fleet of at least 20 aircrafts. Instead, the net worth requirement, Rs 30 crore now, may be raised and made the benchmark. The criterion of at least five years of domestic flying is likely to be slashed to two or three years. No decision has been taken on fleet size as a criterion. Once the five-year condition is relaxed, airlines wishing to stick to domestic routes can still keep their net worth at Rs 30 crore, while the requirement will be higher for those flying to foreign destinations.

Civil aviation ministry officials said the proposal was likely to be included in the civil aviation policy. It follows from the realization that operational experience and management expertise can be hired. Another argument in favour of a change in policy is that India's bilateral agreements provide enough scope for a large number of airlines to operate.

If the proposal becomes a part of the policy, the new domestic carriers will be able to fly in the lucrative sectors like India-US, India-UK and India-Singapore much sooner than anticipated.

Realizing the potential of international operations, Kingfisher Airlines, which began flying in early 2005, has set up an airline in the US to operate flights from India to other international markets. But Jet Airways and Air Sahara, which were allowed to go international after over 10 years of domestic flying, have opposed any easing of the eligibility criteria. They will have to contend with not only the established global carriers but also fresh competition from home. That may force them to further lower fares. When Jet and Air Sahara were allowed to fly to Singapore, the fare dropped to Rs 13,000 from Rs 19,000.

Air Deccan's Proposed Future Strategy

Air Deccan did not see the Air Sahara acquisition as having any impact on its growth plans. It is working on a two-pronged strategy — get into uncharted routes, and tie up with rival Jet and share infrastructure as well as complement their international routes. The company already operates in 15 airports where Jet-Sahara is conspicuous by its absence, hence there is no competition. This number is expected to grow to 20 by the end of 2006, accounting for 20-30% of revenues.

The company expects to carry over 4 million passengers at the end of 2006. From its current operations to 48 cities, it wants to quickly move to operating flights to 70 cities.

Air Deccan initiated talks with Tisco to help them open up Jamshedpur airport, so it could start a Kolkata-Jamshedpur flight. Talks are on for starting flights to Bellary, which has a large potential market because of the tourist centre of Hampi close by, and also because it is becoming a major iron ore centre.

The company was also working on a tie up with Jet Airways that will include an interline agreement. So Jet customers on a London-Delhi flight could land in Delhi and then board an Air Deccan flight to Jalandhar, without having to buy separate tickets. An alliance with Jet makes sense as they also have a large network, and the companies complement each other on many routes. Jet would have access to Deccan's reservation system and the other way around. The alliance would include sharing of engineering infrastructure, exchange of passengers when flights are cancelled, combination offers and so on.

That alliance would be closely watched by competitors, for it might give Jet and Deccan both a key advantage over their rivals who have a smaller route coverage. Especially as some low-cost carriers are looking consciously to avoid competing with rival carriers to concentrate their attention on full-fledged carriers.

Competitors' Planned Response

Spice Jet consciously did not get into routes where strong competing low-cost carriers exist, and on routes where the company competes, the time slots are different. That is why Spice Jet did not fly Delhi-Bangalore directly, a route dominated by Air Deccan, but does fly Delhi-Kolkata, where Deccan has flights but with different timings. Kingfisher wants to attack the core of Jet's business model, the business traveller. But the pricing of the product, or strategy to take on Jet in that market segment is not clear. GoAir is going ahead with its aggressive plans to buy 36 aircraft in three years and hopes to operate in some of the routes which might be freed after the Jet-Sahara rationalization of routes.

The low-cost carriers so far have reasoned that to cut costs, they need to pool their resources, and have identified three key areas where they can share services—ground equipment, engineers and training instructors—and agreed on a flat fare for transfer passengers between each other in case of disruption of flights.

Whether this motley group of private carriers will be able to work together as a cohesive group, or whether growing competition and market growth will make it irrelevant remains unclear yet.

ANNEXURE: OVERVIEW OF GLOBAL LOW COST CARRIERS

Throughout the world, the airline industry experienced a revolution in the last decades as governments introduced deregulation to allow companies greater freedom in the way they operated. However, while the major airlines had been pursuing 'hub and spoke' strategies and global alliances, something new emerged – the 'no-frills' airlines and flights from regional airports.

Traditionally, the airline industry was hemmed in by severe regulations by governments on where and how they could compete. Landmarks were 1978 in the USA when the domestic skies were opened up to competition, and 1997 in Europe when the European Union (EU) wrapped up its own program of deregulation, allowing any EU airline to start domestic operations in another member state. This was, however, a long way from free-for-all competition in 'open skies'. At the same time, many state-owned airlines became commercial organizations.

This limited revolution in the freedom for airlines led to many new entries to the industry, and some considerable carnage. Between 80 and 85% of the new carriers launched in the USA after deregulation have already gone out of business, and in the tough times of 1993–96, 60 out of 80 new European airlines failed.

History shows that developing robust new strategies in this business is easier said than done. However, one time-tested approach to reinventing the airline business which stands out is the 'no-frills' airline, with a value proposition which is radically different to the branding and service offer of the conventional airlines. The model for the 'no-frills' airline is Southwest Airlines.

The Southwest Model

Southwest Airlines started operations in Texas in the early 1970s, and declared a profit every year for the next thirty-four years, is a boast that no other US airline can make. Southwest now operates 2,800 daily flights to 60 airports in 59 cities across the United States. It is the low-cost airline against which its countless imitators are judged.

After a shaky start in 1971, Southwest captured the Texas market with its 'no-frills' concept, flying between Dallas, Houston and San Antonio. The large carriers, more concerned with their intercontinental business, did not take the competition seriously. This left Southwest space to build a cash-pile, which then enabled it to attack prime markets such as California. By the time it expanded, Southwest was no longer a small start-up operation. The 'no-frills' offer Southwest makes to its customers has been the model for many others.

The essential elements are:

- Very low fares – with the effect of filling the aircraft with people who might not otherwise have flown at all;
- Cattle-car boarding with no assigned seating or classes of seat;
- No in-flight service apart from a soft drink and a bag of peanuts.

From the outset, the airline drew attention to itself by being weird. The company takes the idea that work can be fun to extremes. In a market broader than Texas and in an era of rabid political correctness in the USA, the idea was to 'provide positively outrageous service at unbelievably low fares'. The fun elements persist, however, and practical jokes and wisecracks are almost compulsory:

- Sometimes flight attendants play tricks on passengers by hiding in the overhead luggage bins and leaping out at unexpected moments;
- Routinely in-flight announcements are not spoken but sung.

Southwest has made huge efforts to build and sustain a highly motivated workforce. The 'fun' theme is pervasive and is backed by recognition for good service, greetings cards and parties for birthdays and special occasions, and a large investment in training and personal development. The result of almost fanatical dedication to the company is that employees show exceptional levels of productivity compared to the rest of the industry. For example, Southwest has got turnaround time between arrival and departure for its aircraft down to twenty minutes – less than half the time other carriers take to get the plane back in the sky. One reason is that flight attendants and even pilots are ready to help out in cleaning the passenger cabin, loading the bags or doing anything else needed to get back in the air.

Southwest has driven other elements of the cost structure for getting in the air to very low levels:

- Operating mainly on short-haul flights with high traffic densities;
- The fleet is standardized on Boeing 737s, simplifying the spare parts inventory and reducing training needs;
- Regional airports have substantially lower charges for airlines.

As well as the low-cost base and the 'no-frills' offer, there something else striking about Southwest–its aggressive customer service strategy.

'No-frills' Flying in Europe

Following EU policies of aviation liberalization, several European 'no-frills' airlines started with the Southwest model: low fares, no on-board meals, no allocated seats, often using regional airports and lower staffing costs. Initially expected to attract mainly leisure travellers, much of the demand has turned out to be from business travellers who resent paying premium fares to travel within Europe. Estimates suggest that almost half the customers for the low-cost carriers are price-conscious business travellers. The low-cost flight market from the UK to Europe grew from zero to 5% in just two years.

The 'no-frills' operators undercut the big carriers by as much as 50% and focused mainly on high volume, short-haul, point-to-point trips. Low fares were achieved by exploiting several important levers to achieve low costs (the alternative of low fares with high costs is clearly unattractive).

Savings come from:

Distribution costs: it has been estimated that as much as 25% of the cost of conventional air tickets comes from distribution, e.g., travel agent commissions and promotion, the computerized reservation system shared by major airlines and the coupon exchanges to reconcile passenger switches. Direct selling, internet sales and ticketless travel avoid most of these costs.

In-flight catering and staffing: conventional airlines provide 'free' meals and drinks in their ticket prices. Removing these services saves money (and a lot of waste when passengers turn down the food). However, EasyJet estimates that while it has three cabin crew on a short-haul flight, the equivalent BA flight will have six cabin crew, because that is the only way to distribute and collect hot towels and serve all passengers with drinks and food and another round of drinks on a short flight.

Fleet uniformity: a fleet standardized on a single aircraft type hugely reduces maintenance and spares costs and crew training. It also ensures interoperability of spares, enabling to keep most of the fleet service-worthy 24 × 7 × 365.

Regional airports: using regional airports instead of the major hubs has several important implications. It gives access to the underserved regional population in the regional airport's catchment area; fees are lower; less congestion allows the operator to be more efficient and to get better utilization from the aircraft (because they stay on the ground for less time).

The major players in establishing and growing this market in Europe were:

EasyJet: EasyJet was started in 1995. The EasyJet operation have much in common with the Southwest model: point-to-point flights, short haul only, scheduled flights not charters, no frills, low fares and low costs. The thinking is dominated by two things: keeping in touch with the customer and driving out bureaucracy in the business.

The EasyJet mission is stated as 'To Make Flying Affordable' and EasyJet's goal is that more people will fly, and the same people will fly more often. Their target customers are everyone who pays for travel out of their own pockets (not just leisure travel but also business), with the exception of 'fat cats who want air miles'. Costs have been contained, Southwest-style, from the outset. EasyJet's founder is fond of reminding his customers, 'If you want a meal, go to a restaurant'.

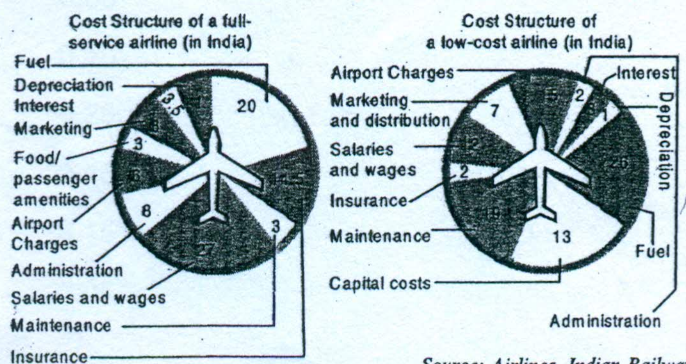
Ryanair: Ryanair was originally a conventional full-service airline, that competed with other full-service operators by offering lower prices. The results were a disaster – Ryanair lost £18 million in four years and went through five CEOs. They adopted the Southwest model and extended services from Dublin to London to the rest of Britain and then on some continental European routes.

Now one of Europe's most experienced low-cost carriers, Ryanair showed that low-cost airlines can be profitable propositions in Europe too. The airline is renowned for constant 80% load factors. Ryanair has been skilful in avoiding direct competition by taking on underdeveloped routes from Dublin to UK's regional cities. Analysts judge that Ryanair has created more of a market than it has taken away from traditional airlines.

Virgin Express: A relative newcomer, Branson's Virgin offshoot achieved break-even in 1996 and a small profit in 1997. Thereafter, it has been keeping the low-cost show alive.

Indian Skies: A fare to remember (Normal one way fare in Rs.)

Routes	Jet Airways	Indian Airlines	Air Deccan	Rail II AC	Rail I AC
Bangalore-Hyderabad	4,700	4,705	2,375	1,211	2,286
Mumbai-Goa	3,405	3,410	2,135	1,232	1,402
Chennai-Bangalore	3,235	2,905	1,755	747	1,402



Source: Airlines, Indian Railways

FIGURE CS3.1 COST STRUCTURE OF A FULL SERVICE AIRLINE VERSUS A LOW COST CARRIER

In spite of this initial success for the low-cost airlines, industry commentators had been predicting a phase of rationalization and consolidation, as happened in the USA, with the weaker operators closing. Certainly the US experience has been that most of the low-cost airlines have failed, the only really successful low-cost operator being Southwest airlines.

QUESTIONS FOR DELIBERATIONS

1. Can Air Deccan manage to make profits by continuing to offer such low prices, given the lack of suitable infrastructure, and other cost escalations in the Indian market (as compared to other countries where LCCs have been successful)? Is the business model of low cost carrier airlines feasible for the Indian skies, or should some other innovation be done to sustain the business?

2. All the low cost carriers seem to be targeting customers who are price sensitive. Can the airlines identify different segments of consumers within this price sensitive segment? If so, what should be the basis for segmentation? Besides, is it possible to look beyond the price sensitive consumer segments to focus instead on consumers who demand additional services, but are willing to pay more? Either way, airlines need to differentiate their service offerings. How can this be done by Air Deccan?

3. Do you feel that Air Deccan has managed to build brand preference among air travellers in the Indian market? What can Air Deccan do to enhance brand preference, particularly in terms of its communication strategies?

4. At present, there is intense competition in the LCC industry in India. There are almost no doubts of an impending shakeout, or consolidation. When do you think this would happen, and how would Air Deccan fare in such a scenario? What type of competitive marketing strategies should Air Deccan adopt to emerge on top in such situation?

5. Suggest other innovative measures by which Air Deccan can keep its costs down, in order to continue offering low prices to consumers?