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Open Skies

Liberalization in India's air transport industry has caused the country's two traditional carriers to adapt to a new environment.

■ By Shail Maniar | *Ascend* Contributor

For several decades, air travel in India was monopolized by the two traditional state-owned airlines — Air India (primarily international) and Indian Airlines (domestic). This supremacy began to erode in the early 1990s when the Indian government scrapped the ban on privately owned airlines, and a host of smaller airlines eventually sprouted to challenge India's dominant flag carriers. Some folded, but others, such as Jet Airways, thrived, and as a result, Jet Airways' domestic market share rose to more than 40 percent by early 2005.

Air India Express photo by TomLo/PlanePictures.net; Air India photo by Attila Hollósi/PlanePictures.net; Indian Airlines photo by Andrew Hunt/Airliners.net; Jet Airways photo by M Radzi Desa/MyAviation.net; Air Sahara photo by Antony Best/Airliners.net; Paramount Airlines photo by Luis Rosa/MyAviation.net; British Airways photo by Wojtek Werpachowski/Airliners.net; SpiceJet photo by Joe Walker/MyAviation.net; Go Air photo by Olav Rhensius/Propfreak Collection; Lufthansa photo by Chai Tzong Ying/Airliners.net; Cathay Pacific photo by Ben Wang/Airliners.net; Kingfisher Airlines photo by Gerd Beifuss/MyAviation.net; AirDeccan photo by Jan Kertzsch/PlanePictures.net





Open Challenges

For much of the '90s, Air India, Indian Airlines and Jet Airways each carved out a market segment of their own, and it seemed that equilibrium of sorts would be maintained for a very long time. Economists coined 2004 as "the year India learned to fly" and 2004 turned out to be a watershed in Indian civil aviation. Three key factors that supported this claim were:

- Liberalization of India's civil aviation policies (result: launching of several new private airlines),
- A burgeoning Indian economy (result: very strong travel demand),

■ The quest for a "quality product" from the Indian consumer (result: new airlines focused on providing world-class service).

As 2006 progresses, both Air India and Indian Airlines will need an extreme makeover to survive and compete in the changed Indian aviation market.

Current State of Affairs

Competition is leashing a three-pronged attack on both Air India and Indian Airlines. Having established itself as a dominant player in the domestic air travel space, Jet Airways and Air Sahara — recently purchased by Jet

Airways — are taking on Air India on many of its once-prized international routes. Domestically, both Air Deccan and recent entrants Kingfisher Airlines and SpiceJet are eroding Indian Airlines' market share each month on most domestic routes. By early 2006, the combined LCC market share in India was around 27 percent, and as a result, Jet Airways' market share dropped to about 35 percent and Indian Airlines' share dropped to 25 percent. On the positive side, Jet Airways and most other carriers increased capacity in the domestic market, indicating that the size of the Indian aviation market has increased year over year.

Open-skies agreements with India have resulted in Asian, European and Middle Eastern airlines ramping up flights to India; Air India has lost its dominance on various routes to British Airways (flights to London), Cathay Pacific Airways (service to Asia) and Lufthansa German Airlines (flights to Europe).

The current state at Air India and Indian Airlines can be summed up as:

1. Desperately needing a long-awaited fleet renewal. New aircraft have not been added in more than a decade.
2. One of the largest workforces among airlines in the world today.
3. Government interference in the management decision-making process. Political leaders continue to control appointing managers, deploying aircraft and deciding routes.

Another not so obvious challenge facing both Air India and Indian Airlines is potential talent attrition. Both have an experienced workforce with expertise in key airline functions, particularly in international operations. For a long time, an aviation career in India could only

position their products to gain a substantial slice of the Indian market.

Turning Challenges into Opportunities

Though the Indian government has recently liberalized the aviation policy to support new local private airlines, it needs to strike a balance between liberalization and support for Air India and Indian Airlines to create a more vibrant, competitive and liberalized aviation industry, which would be a draw for investors and travelers alike. The government is tackling the issues head on. Recently, the government finally approved a plan to buy up to 68 aircraft for Air India and 43 for Indian Airlines. There is a window of opportunity for Air India, and the government realizes this, too, since the biggest beneficiary of open-skies agreements such as that with the United States will be Air India in the short term. No other local airlines have aircraft capable of flying to long-haul destinations such as the United States.

The government's other strategy is to

the inherent strengths and the solid base of the airline — of its vast network, technology and infrastructure. Indian is hoping that newer aircraft and a fresh brand will enable the Indian traveler to view it as an entirely new carrier.

One school of thought says that Air India and Indian should merge, saving millions of dollars by creating operational synergies in marketing, ground handling and purchasing as well as reducing their workforce from 40,000 to 20,000. The government has considered this option, but political pressures and opposition from trade unions have stalled these plans. The current strategy is to offer portions of the airlines' equity to the public while retaining full management control.

Will these measures, when added up, revive both Air India and Indian and enable them to compete? Opponents say these measures are half baked and won't take them far. And unless they are given access to foreign capital and independent decision making, they will have little chance to survive.

Will They Survive?

Given how the Indian aviation scenario is playing out, Air India has better odds at turning around and surviving as compared to domestic-focused Indian Airlines. The barriers to entry are much higher for a new Indian carrier in international operations versus operating domestically. Some signs indicate Air India may be considering starting a full-fledged domestic operation to feed its large international operation, a move that would position the airline to compete with the combined Jet Airways and Air Sahara. Air India has a vast network of routes in its arsenal, though much of it is unused due to limited aircraft capacity and mission capability. Though the new aviation policies will allow the likes of Jet Airways and Air Sahara to initiate international flights, this is easier said than done. Long-haul flights require appropriate aircraft, crew and logistical support.

Undoubtedly, regardless of which airlines survive in this battle, the biggest beneficiary will be the Indian air traveler. India remains far behind China in numbers of domestic passengers and aircraft. But the global aviation industry sees India as the next China. The aviation scenarios in both China and India are playing out quite differently — new Indian entrants, such as Kingfisher Airlines, are leading the way in creating a totally new travel experience for Indians, and the state-owned flag carriers are playing catch up for survival. **F**

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HIGHLIGHT

By early 2006, the combined LCC market share in India was around 27 percent, and as a result, Jet Airways' market share dropped to about 35 percent and Indian Airlines' share dropped to 25 percent.

be sought at these two airlines. New private airlines will need to get up and running quickly, and a natural place for them to hire trained cockpit crew and administrative staff would be from the two state-owned airlines. The recent takeover of Air Sahara by domestic leader Jet Airways enables it to further strengthen its position in the India marketplace and distance itself from the rest of the pack. The acquisition also enables Jet Airways to gain additional access to key operational assets (check-in counters, hangars, parking bays, etc.) as well as qualified and trained cockpit crew, cabin crew, and maintenance personnel.

The state of the aviation industry in general, however, is upbeat and vibrant. According to the International Air Transport Association's forecast for India, international passenger traffic will grow 8.4 percent annually between now and 2009. When added to domestic traffic, the growth is close to 12 percent. With this magnitude of growth, it is natural to assume that both Air India and Indian Airlines could

establish and solidify Air India's presence on international routes that lack competition from the likes of the combined Jet Airways and Air Sahara. The government's new policy of allowing Jet Airways and Air Sahara to fly to international destinations, such as Southeast Asia, Europe and the United States, excludes the high demand and profitable routes to the Middle East for now. As a result, Air India floated a low-cost subsidiary, Air India Express, to primarily operate from the southern state of Kerala to the Gulf and West Asian destinations with an 18-aircraft fleet. If this experiment is successful, it would make Air India Express the choice airline for the millions of Indian expatriate workers in that region.

Indian Airlines is undergoing a more dramatic makeover to respond to the competition and is in the process of re-branding itself to Indian. Signifying continuity with change, the new look of the airline communicates a bold, striking, progressive and distinctive image. The big and bold font of the new logo connotes