

Question Paper

Integrated Case Studies – II (MB381) : April 2007

Case Study (100 Marks)

- This section consists of questions with serial number 1 - 6.
- Answer all questions.
- Marks are indicated against each question.

Case Study

Read the case carefully and answer the following questions:

1. “At a time when low cost carriers are on the rise, Kingfisher Airlines (KFA) has positioned itself as a budget carrier and not as a low cost carrier.” Evaluate Kingfisher’s initial success in light of its value proposition and justify how KFA can gain competitive edge in an industry where differentiation is becoming difficult.
(18 marks) <Answer >
2. Analyze the changes in the Indian aviation industry, since its inception in 1953, which made the industry more conducive for private players.
(15 marks) <Answer >
3. Critically analyze key elements of Kingfisher’s marketing strategy that have helped it to differentiate its offering from those of its competitors.
(20 marks) <Answer >
4. “KFA has developed and implemented a new and higher level of customer service. The ‘wow’ level of customer satisfaction provided by an Indian airline is commendable.” In this light, discuss the changing customer expectations and preferences with respect to air travel and how KFA has managed customers’ service expectations.
(10 marks) <Answer >
5. Explain the importance of pricing in the airlines industry. Do you think low cost airlines will sustain themselves in the long-run?
(12 marks) <Answer >
6. Despite KFA’s initial commendable success, various factors pose an uncertainty about the good times lasting. In this light,
 - a. Assess the challenges KFA faces.
 - b. How do you think KFA can realize its vision of becoming India’s largest private airline by 2010?(15 + 10 = 25 marks) <Answer >

Kingfisher Airlines: The ‘Funliner’ Experience

“It was my maiden Kingfisher flight and I was already beginning to get an inkling of his (Vijay Mallya’s) flamboyant personality. The ‘wow’ level of customer satisfaction provided by an Indian run airline was commendable.” [1]

– A Guest who Traveled by Kingfisher Airlines, in 2006.

“Aside from the fascinating description of their aircraft fleet as ‘Funliners’, Kingfisher Airlines has developed and implemented a new and higher level of customer service across much of the Indian subcontinent.” [2]

– Peter Miller, Director Marketing, Skytrax, in 2006. [3]

“Kingfisher doesn’t offer business class. So it can’t beat Jet in that segment.” [4]

– **Harish Bijoor, Brand Consultant and CEO of Harish Bijoor Consults Inc., in 2006.**

FLYING THE GOOD TIMES

On April 25, 2005, Kingfisher Airlines (KFA), a wholly-owned subsidiary of the United Breweries Holding Limited, the investments holding company of the UB Group (Refer to Exhibit I for a brief note on the UB Group), took delivery of its first aircraft – an A320 from Airbus – at a special ceremony in Toulouse, France. It was the first time that an Indian private airline had bought a brand new aircraft for commencing its commercial operations.

KFA, which started its operations in India on May 7, 2005, positioned itself as a budget carrier and not as a low cost carrier (LCC). Vijay Mallya (Mallya), Chairman and Managing Director of the UB Group, said “Kingfisher Airlines will have a ‘Fly the Good Times’ approach and this will reflect in the experience we will offer to passengers. With costs lower than economy class travel on full service airlines and marginally more than the ‘bus services’ type low cost competition, Kingfisher Airlines offers a far better value proposition. The aircraft and service will reflect the Kingfisher lifestyle imagery and credibility that has been built over the years.”

As of December 2005, KFA had a fleet of nine aircraft (seven A320s and two A319s) and operated on 56 routes. KFA also managed to corner a six percent market share within the first six months of its launch. As of January 2006, KFA had a 7.6% market share of the domestic air travel market (Refer to Exhibit II for the market shares of major airlines in India).

In December 2005, KFA won the ‘Best New Airline of the Year 2005’ award in the Asia Pacific and Middle East region from the Center for Asia Pacific Aviation (CAPA). On receiving this award, Mallya said, “Kingfisher Airlines has grown at a scorching pace and we intend to continue to delight and pamper our guests and offer them unparalleled levels of service, comfort, and convenience to ensure that they keep flying the good times!”

Later, in January 2006, KFA was voted as the third most successful brand launch of 2005 in the Business Standard annual Brand Derby. In February 2006, Skytrax gave KFA the 2006 award for ‘Service Excellence for a New Airline’. At this awards function, Mallya said, “This award means a lot to us because it expresses the opinion of travelers across the board and because Skytrax surveys are so highly regarded within the travel industry. This survey is not just a vote about the product facilities offered, but combines customers’ very clear perceptions about our service standards.”

However, the competition in the Indian skies was hotting up. New low cost carriers (LCCs) like SpiceJet and GoAir entered the market after KFA’s launch and they started an all-out price war by slashing down on fares. For instance, in December 2005, GoAir started offering 10,000 free air tickets on four new routes (Hyderabad, Chennai, Jaipur, and Bangalore). Established players like Jet Airways (India) Ltd., (Jet Airways)

too looked to consolidate their market positions. In January 2006, Jet Airways announced that it would acquire Air Sahara (Sahara) for US\$ 500 million. This acquisition would make Jet Airways India’s largest airline with an almost 45% market share. Jet Airways was also expected to gain control of Sahara’s 22 parking bays spread across many domestic airports. In February 2006, the Jet-Sahara combine brought down their air fares to compete against KFA, and LCCs like Air Deccan and SpiceJet.

There were also other challenges which affected the airline industry as a whole, like high aviation turbine fuel (ATF) prices and congestion problems at high traffic airports like Mumbai and Delhi.

In this increasingly competitive environment, KFA set its sights on becoming India’s largest private carrier by 2010. Mallya said, “Having invested in the best-in-class fleet of aircraft, we are committed to achieving our ambition of making Kingfisher Airlines India’s largest private airline both in capacity and market share by 2010.” There were also media reports that KFA planned to launch a low cost airline called ‘Kingfisher

Express’ to tap into the growing LCC segment.

BACKGROUND

The Government of India nationalized nine airline companies vide the Air Corporations Act, 1953. Accordingly it established the Indian Airlines Corporation (IAC) to cater to domestic air travel passengers and Air India International (AI) for international air travel passengers. This Act ensured that IAC and AI had a monopoly over the Indian skies. A third government-owned airline, Vayudoot, which provided services between smaller cities,

was merged with IAC in 1994. [19] These government-owned airlines dominated India's air travel industry till the mid-1990s.

In 1994, IAC was renamed Indian Airlines (IA). In the same year, the Indian Government, as part of its "open skies" policy, ended the monopoly of IA and AI in the air transport services by repealing the Air Corporations Act of 1953 and replacing it with the Air Corporations (Transfer of Undertaking and Repeal) Act, 1994. Private operators were allowed to provide air transport services. Foreign direct investment (FDI) of up to 49 percent equity stake and NRI (Non Resident Indian) investment of up to 100 percent equity stake were permitted through the automatic FDI route in the domestic air transport services sector. However, no foreign airline could directly or indirectly hold equity in a domestic airline company.

By 1995, six private airlines accounted for more than 10 percent of the domestic air traffic. But in the next couple of years, only Jet Airways and Sahara managed to survive the competition; NEPC Airlines, East West Airlines, ModiLuft Airlines, Jagsons Airlines, Continental Aviation, and Damania Airways lost out. IA, which had dominated the Indian air travel industry, began to lose market share to Jet Airways and Sahara, which provided better services. From a 100% domestic market share in 1994-95, IA's share had gone down to 36% by

[20] 2000-01.

In 2003, Air Deccan, a subsidiary of Deccan Aviation Private Limited [21], started its domestic air travel operations as India's first LCC. Air Deccan's low fares ensured that air travel was more accessible to the middle class Indian. Air Deccan, which described itself as an airline for the 'common man', even brought down fares to

Rs.1 [22] in some of its promotional schemes. Air Deccan's rapid growth encouraged other LCCs to start operations, and this ushered in a revolution in the Indian air travel industry. The number of domestic passengers

had increased from 26.36 million in 2001-02 to 40.09 million in 2004-05. [23] After KFA's launch, SpiceJet, Paramount Airways, and GoAir had started their operations as LCCs. Other airlines which planned to start operations were Indus Airways, Air One, Magic Air, East West Airlines, Interglobe, Crystal Air, Visa Air, etc. (Refer to Exhibit III for a list of airlines that were planning to start operations, as of April 2006).

The UB Group had actually launched a commercial air service called UB Air way back in 1990 but government restrictions had soon forced its withdrawal. With the rise in passenger traffic and the success of LCCs like Air Deccan, Mallya felt that it was the right time to launch KFA. Commenting on the UB Group's early initiatives in aviation, Mallya said, "The UB Group was the first to launch a non-government Commercial Air Service in 1990. We now feel a compelling need to re-enter the Indian Civil Aviation market, which is one of the fastest

[24] growing markets in the world."

THE 'FUNLINER' EXPERIENCE

[25] KFA modeled its strategy on the strategies of JetBlue Airways, in providing value added air travel services at economical prices. KFA purchased brand new A320 aircraft powered; the cockpit was a paperless environment. The airline called its aircraft 'Kingfisher Funliners' to represent the fun-filled experience it wished to provide to its customers. All the aircraft had in-flight entertainment systems and well designed interiors. There was only one class, i.e., the Kingfisher Class, rather than the economy class and business class bifurcation of other airlines. "We are going to have a single class which will combine the experience of business class with

[26] economy," said Ajit Bhagchandani, General Manager of KFA. Having a single class freed up more space and legroom for passengers when compared to normal economy class seats. KFA was also the only airline in India to address its passengers as 'guests'.

KFA sought to differentiate itself from other airlines by providing more comfort in terms of larger seats with plenty of legroom and adjustable headrests, in-flight entertainment through personalized wide screens and headphones, which broadcast five video channels and 10 audio channels. For the safety of its guests, KFA had

sophisticated communication and navigation security systems provided in each 'Funliner' and on the ground. Guests could check the aircraft's altitude and speed or the remaining time of the journey, with the help of a moving map on their personal screens. Specialized meals and beverages were served on board during the journey; free gifts were also given to the guests.

Mallya sought to position KFA as high in quality, yet priced within the reach of the Indian middle class. He also ensured that the guests associated every aspect of the airline with Mallya's own flamboyant lifestyle and the 'Kingfisher' liquor brand. On the brand name 'Kingfisher', Mallya said, "In our latest brand communication including television ads we have had the catchphrase 'Kingfisher is flying'. I do not know how many people saw the significance of that. Normally when an airline launches it has to do heavy marketing and promotional activities. In our case, we have the advantage that people are familiar with the brand. For the youth, Kingfisher represents vibrancy, color, and is an aspiration product. Our 'Funliners' will have the same positioning. We will [27] also make sure that our positioning is constant."

KFA wanted to differentiate its service from those of other players by offering more comfort, style, entertainment, and personalized services to the guests. The idea was to take air travel beyond just traveling and to ensure a memorable experience for its guests. The Chairman's address on KFA's website began with the following quote by Mallya, "It is my passion to deliver the best of good times. After all, work and play can go hand in hand. I am sure that you have several pressing commitments and stressful work obligations. Like me, [28] [29] you also need some time to chill.....with the King of Good Times ."

[30] KFA was the first Indian airline to have a hi-tech aeronautical system ACARS, which connected the ground operations and allowed real time monitoring of each aircraft and its condition. KFA strove to improve its operational performance parameters through maximum capacity utilization (10.5 to 11 hours a day) with the minimum turnaround time (40 minutes). KFA also used a combination of purchased and leased aircraft in its fleet. It made a deal with IA – the first public-private partnership in the Indian aviation sector – under which IA would provide ground handling facilities and engineering and aircraft maintenance support at the Mumbai and Delhi terminals. The benefit for IA would be in terms of a better return on its fixed asset infrastructure at these terminals.

KFA'S PRICING

Mallya made it clear that KFA would not be positioned as a low cost carrier as passengers would attribute the features of low cost carriers like low quality of service, delayed flight timings, etc., to KFA as well. Hence, the airline was called a budget airline and not an LCC. Fares were above those of LCCs but lower than the economy class fares of Jet, Sahara, and IA. KFA also allowed multiple fare options and auctioning of tickets on all traffic routes.

During the initial launch, KFA's air ticket fares were 25 percent lower than Jet Airways and around Rs.600 higher than Air Deccan. But after the proposed Jet-Sahara merger was announced in January 2006, Jet Airways brought down fares on specific high-traffic routes to compete with KFA and LCCs like SpiceJet and Air Deccan. (Refer to Exhibit IV for a comparison of fares of various airlines). Hence, in addition to low fares, KFA also focused on maintaining low turnaround times, and providing value added services like home delivery of air tickets, mobile updates, etc. Mallya said, "We are offering our passengers more than just value-based fares; we [31] will offer a complete lifestyle experience."

KFA'S PROMOTIONAL STRATEGY

As part of its promotional strategy, the marketing team of KFA showcased the airlines as 'the new flying experience'. Advertisement hoardings at airports depicted the stylish interiors of the 'Funliners', which conveyed [32] a youthful, fun-filled, and world-class image. INOX multiplexes in Mumbai publicized KFA's special offers [33] for a month. KFA was the official travel airline for the cast and crew of 'Mangal Pandey' and gave a red carpet welcome to all the guests who attended the premiere of the film.

Mallya made use of various events like fashion shows, celebrity golf matches, New Year parties, and musical nights to build the 'Kingfisher' brand and to create additional publicity and buzz about KFA. In July 2005, KFA flew in top sportsmen and film personalities to play golf at the Bangalore Golf Club. It sponsored awards for various categories like the straightest drive, closest to pin, etc., along with free air tickets to the winners. KFA

also co-sponsored a musical night along with Deepayan, a non-government organization, to collect funds that would support the education of under-privileged students.

At the Kingfisher pre-Derby night, ^[34] KFA flew in top models from Mumbai and Delhi to Bangalore to participate in the fashion show. During this event, Mallya gave away free KFA air tickets to 'the most stylish couple'. The UB group's monthly magazine called 'Pegasus' published information about KFA along with other information related to the UB group. KFA also sponsored free air tickets to the celebrities who came to

Bangalore for the 'Tiranga' concert held on August 15, 2005. ^[35]

KFA launched several attractive offers to promote its sales like the 'King Card' in association with ICICI Bank ^[36]

in August 2005. This was meant to create loyal customers for KFA by providing benefits like privileged access to lounges, restaurants, free refreshments at airports, access to 180 golf clubs in India, special invitations for lifestyle shows, fashion shows, movie premieres, etc.

KFA also conducted events like 'Kingfisher flying face of the month contest', in-flight auctions for lifestyle products, selling merchandise at attractive discount prices, and selling packaged food and beverages. Free tickets were given to guests as a special offer called 'Chill Times Offer' in the months of August 2005 and September 2005.

In October 2005, KFA launched the 'King Saver offer' which said, 'Fly like a King, don't pay like one'. Under this offer, six KFA coupons were given for one-way travel between two destinations at a fixed price. The King Saver Corporate coupons were priced at Rs.28,000 (for six coupons) and the Kingfisher Saver Personal coupons were priced at Rs.25,000 (for six coupons). The scheme was open till November 15, 2005.

KFA targeted the frequent flier business traveler segment, which was dominated by Jet Airways ^[37], by offering a 'King Saver Booklet'. This booklet contained six flight tickets free and was presented as a free gift if the passenger bought two such booklets each worth Rs.26,999. Passengers could avail of this offer if they showed their Jet Privilege Member (Gold or Platinum) Card.

In November 2005, KFA announced the 'Power Flyer Offer' targeted at business travelers who took same-day return flights. Under this scheme, a guest would be paid back Rs.1,000 in cash if he/she took a return flight on the same day with KFA. This scheme was applicable on all routes between Mumbai, Delhi, Bangalore, and Kolkata. KFA also launched a 'No Compromise' scheme, which was a single fare for every seat on every flight for a limited period of time. This scheme had no restrictions on the number of seats, unlike the promotional schemes offered by other airlines which offered limited seats at low prices. In a special scheme called

'Kingfisher Airlines + Hotel Super Saver', the airline tied up with makemytrip.com ^[38], a popular online travel website, to offer travel packages to Goa, Mumbai, and Bangalore. Tourists could save up to 60% percent of their travel and hotel costs through this scheme. This offer also included free air-conditioned car travel to all its guests, from the airport to their destinations within the city.

KFA also targeted specific passenger segments when it announced, in December 2005, special fares for all those currently serving in the Indian army, central government and state government employees, and public sector unit (PSU) employees currently in service. This offer included the spouse, parents, and dependent children of these employees. This offer was valid for booking and travels up to March 2006.

RESERVATION AND SUPPORT SERVICES

KFA's customers could book their air tickets either online at the KFA website (www.flykingfisher.com), at any KFA office, or through an approved travel agent. KFA also offered a facility for home delivery of tickets on demand.

In December 2005, KFA launched its SMS service called 'King Mobile' to keep its guests updated about flight schedules and flight status through instant mobile alerts. Commenting on the 'King Mobile' service, Girish Shah, General Manager – Marketing, KFA, said, "The service comes in at a very appropriate time as in the months of December and January the northern and eastern regions of the Indian subcontinent are subject to a very high degree of fog which hampers visibility and movement. The same has an adverse effect on all aircraft movement in these regions, which in turn has a spillover effect on airline schedules across India. Hence it is imperative for all airlines to derive an effective communication plan to minimize any instances of guest inconvenience. King

Mobile service is a very effective tool to cater to guest needs at such times." ^[39]

With increased competition from LCCs and the Jet-Sahara combine reducing their airfares, KFA announced in February 2006, that it was doubling its agent commission to 10%. This was the first for any airline in India as most carriers like Jet Airways, IA, and Air Deccan offered a 5% commission. It was reported that 60% of KFA's ticket sales was done through travel agents and hence KFA sought to provide incentives to its agents to improve sales. KFA also conducted raffle draws for agents who gave business of over Rs.1.0 million per month, wherein they could win luxury cars.

PEOPLE

Prior to its launch, KFA signed a 'non-poaching alliance' with Air Deccan under which both airlines agreed not to hire each other's employees. However, most of KFA's crew came from Jet and Sahara.

KFA's flight attendants also called 'flying models' were selected through a national level model contest. The attire of KFA's cabin crew was designed by noted fashion designer Manoviraj Khosla. KFA also stressed the fact that its employees had to be capable enough to meet the airlines' high service standards. Ruby Arya, HR manager, KFA, said, "Though good looks are essential in this profession, a pleasant and outgoing attitude combined with hard work is important."^[40]

KFA appointed Nigel Harwood (Nigel)^[41] as Chief Operating Officer with effect from August 1, 2005, to strengthen its management team. He was given the responsibility of overseeing KFA's ground handling, technical and flight operations of the airline's route network. About Nigel's appointment, Mallya said, "The addition of Nigel Harwood to our team underscores our commitment to achieve leadership in the Indian market."^[42]

Commenting on the management team at KFA, Mallya said, "Kingfisher Airlines Limited has a first class management team not just at the top most level but also in the second line. This is a part of the UB Group's commitment to human resources."^[43]

KFA'S EXPANSION PLANS

During KFA's launch function in May 2005, Mallya mentioned that the airline would add at least one aircraft to its fleet every month till the end of 2005. KFA started off with four A320's and had nine aircraft by the end of December 2005. In June 2005, KFA placed an order worth US\$ 5 billion at the Paris Air Show, for five new^[44] A380 aircraft, five A350-800 aircraft, and five A330-200 aircraft. KFA was the first Indian carrier to place an order for A380s.

In November 2005, KFA announced that it had placed an order at the Dubai Air Show for 30 A320 and 20 ATR^[45] 72-500 aircraft. The total order was worth US\$ 1.9 billion. The new ATR 72-500 aircraft, worth US\$ 350 million, were the first additions to KFA's regional fleet. On this occasion, Filippo Bagnato, Chief Executive Officer of ATR, said, "This new contract asserts our leadership in India's regional market and confirms the suitability of ATR aircraft in that country. With ATR 72-500, Kingfisher Airlines will operate state-of-the-art aircraft which combine both jet-like comfort and economics."^[46]

KFA concentrated on increasing the frequency of its flights on city-pair routes like Mumbai-Delhi in order to cater to the needs of corporate clients and business travelers. It also launched two flights between Mumbai and Bangalore on May 7, 2005. Later, it increased the frequency of these flights to five. Between Mumbai and Delhi, India's most competitive sector, 10 flights were launched. In August 2005, a Mumbai-Goa flight was introduced in addition to a Delhi to Goa flight with a stopover at Mumbai. A Bangalore to Goa flight was introduced for business and leisure travelers. New flights were launched between Mumbai-Kochi, Chennai-Bangalore-Pune-Ahmedabad. With these, the total number of KFA's daily flights increased to 56.

To further its expansion plans, KFA put in its bid to buy Sahara in November 2005. However, negotiations came to a standstill with Mallya considering the valuation of US\$ 750 million to US\$ 1 billion, made by Sahara's advisors, Ernst and Young (E&Y),^[47] too high. "The valuation expectation communicated by Ernst & Young is in our judgment very excessive,"^[48] said Mallya. Finally, in January 2006, Jet Airways bought Sahara for US\$

500 million dollars in an all-cash deal. This deal gave Jet a dominant position with around 45% share of the domestic air travel market.

[49] KFA had plans to make an IPO (initial public offer) and raise around US\$ 200 million that would be used for its fleet acquisition and route expansion activities. In March 2006, Mallya announced, “We are ready to go public with Kingfisher Airlines. Within 10 months we already have a market share of over seven per cent and two international awards. Our customers keep coming back. So we will be coming out with an IPO within the [50] next three to five months. The process has already started.”

KFA set up Kingfisher International Inc. (KII), a subsidiary in the US, for its international operations. KFA planned to operate on international routes by the end of 2007. But KFA had yet to receive permission from the Indian government. According to the government regulations, a domestic carrier was not allowed to fly international routes without five years of domestic flying experience. But Mallya said that if he failed to convince the Indian government to change its rules, he would start an airline in a foreign country and fly to India.

KFA decided to increase its dollar revenues by targeting the NRI passenger travel segment and appointed some general sales agents in Europe, North America, and the Gulf countries to sell its tickets. KFA also signed an agreement with the Sharjah-based Air Arabia, a low cost airline, so that passengers from Kolkata, Delhi, Goa, Kochi, and Bangalore could avail the low prices for traveling to the Gulf region. These passengers could log on to Air Arabia’s website and select a destination and with this single ticket they could travel on KFA to Mumbai and from there to the Gulf on Air Arabia. The total fare was approximately 30 percent less than that of other airlines.

WILL THE GOOD TIMES LAST?

The proposed buyout of Sahara by Jet Airways and the price war among all the airlines was an indication of the competition building up in the Indian aviation sector. With regard to the increased competition, Mallya said, “Sure there will be a bloodbath. in so-called low-cost airlines who seek to convert the railway passenger into [51] airline passenger. We are positioned extremely differently.” He also said that KFA targeted the growing middle class segment that was net savvy, young and upwardly mobile, with a propensity to spend. KFA expected the Indian air travel market to grow by 20% to 25% on an annual basis and was primarily targeting these new travelers.

[52] In this tough competitive environment, maintaining a good passenger load factor (PLF) was the prime concern for all airlines. Since its launch, KFA had an average passenger load factor of 70% to 75%, while Jet Airways had a PLF of 80%. Analysts felt that after the acquisition of Sahara, Jet Airways would leverage on its market strength to reduce fares and take on KFA and the other LCCs.

[53] In April 2006, KFA launched ‘Kingfisher First’, an upgraded business class service on all flights between Mumbai and Delhi. KFA planned to extend this service across all its flights by June 2006. Though this move was seen as a shift from its earlier ‘single class’ strategy, Mallya responded that KFA was only adapting to the changes in the Indian air travel market. With the growth of the economy and the rise in disposable incomes, Mallya believed that more people were willing to spend for premium services. ‘Kingfisher First’ seats were priced 3.5 times the price of the ‘Kingfisher Class’ seats. Analysts opined that KFA was trying to cash in on its upwardly-mobile image and attract business class passengers, in its endeavor to become a profitable airline at the earliest.

Analysts felt that the Indian aviation industry as a whole faced challenges of inadequate airport infrastructure and rising ATF prices. Congestion at airports delayed the turnaround time of airlines and increased fuel consumption. ATF costs, which accounted for around 38% of an airline’s costs, coupled with landing and navigation fees and other airport charges, were all fixed costs that amounted to about 50% of an airline’s costs. These costs were practically out of the airline’s control, resulting in less scope for cost minimization. There was also an acute shortage of trained pilots, flight crew, and air traffic controllers (ATCs). Given these challenges, investors and analysts felt that it remained to be seen how KFA would work toward its vision of being India’s largest private airline by 2010.

Exhibit I**Brief Note on the UB Group**

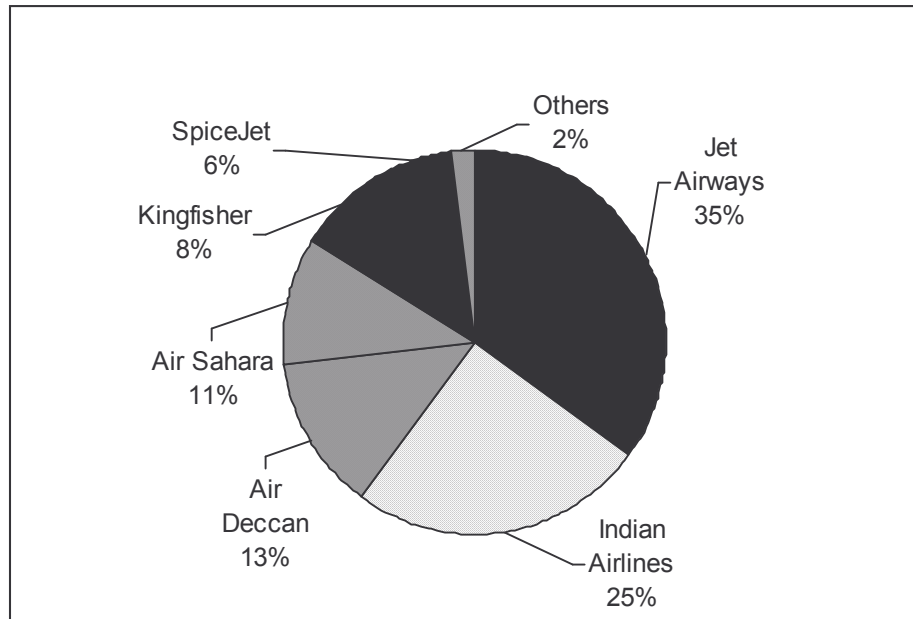
The UB Group was founded in 1915 by a Scotsman named Thomas Lieshmanin, when five beer manufacturing South Indian breweries came together as United Breweries. The group used to manufacture beer in bulk for the British troops stationed in India. In 1947, after India's independence, Vittal Mallya took charge as the group's first Indian Director. The group expanded its operations into various businesses like wines and spirits business, agro-based industries, and pharma through many expansion programs and acquisitions. The acquisition of McDowell helped the group extend its product portfolio into the wines and spirits business. In 1983, Vijay Mallya took over the reins at the UB Group following his father's death.

The UB Group was one of India's largest business groups with net revenues of over US \$2 billion in 2005. The Group has diverse interests in alcoholic beverages, pharmaceuticals, agrochemicals, real estate, engineering, fertilizers, biotechnology, IT, media, and aviation. In June 2005, the UB Group's Spirits Division became the world's second largest distilled spirits company after it acquired Shaw Wallace and Company Limited. As on October 2005, the company had a 54% market share in the spirits segment in India and a 45% market share in the beer segment.

The UB Group's flagship company is United Breweries Limited (UBL), also referred to as the Beer Division. The 'Kingfisher' brand of beer, with its tagline "The King of Good Times", is extremely popular and is sold in over 52 countries across the world. Kingfisher beer was the largest selling beer brand in India and had a 29% market share in 2005. Due to the restrictions on advertising liquor products in India, the Kingfisher brand was promoted through sponsorship of various high profile events like fashion shows, annual fashion calendar, sporting activities like cricket, football, horse-racing, Formula One (F1) racing, etc.

United Breweries also acquired an equity stake in the United National Breweries in South Africa to further expand globally. The Spirits Division focuses mainly on the Indian Made Foreign Liquor (IMFL) segment with many popular brands in whisky, brandy, rum, gin, and vodka liquor products.

Compiled from various sources.

Exhibit II**Market Share of Major Airlines in India (As On January 2006)**

Adapted from "Low-cost airlines garner 27% market share in Jan," The Times of India, March 14, 2006.

Exhibit III**List of Airlines that were planning to start operations (As of April 2006)**

Airline	Type	Details
Indus Airways	Value carrier	Promoted by a group of NRIs working with Kapil Mohan, head of Mohan Meakin Breweries. Commenced operations from end of October 2005.
Magic Air	Low cost carrier	Promoted by Nira Radia. Announced its launch in 2005 but yet to get a No Objection Certificate (NOC) from the government.
Air One	Regional	Yet to be launched.
East West Airlines	Value carrier	Part of the East-West Group. Had begun airline operations in 1993, but eventually closed down due to operational problems and leadership issues after the assassination of its Managing Director Thakiyudeen Wahid in 1995. However, the East-West Group's chairman Nasiruddin Wahid announced that the group had plans to launch a LCC, after getting the necessary clearances from the Indian civil aviation authorities.
Crystal Air	Regional	Filed for NOC, to start operations in south India.
Visa Air	Low cost	Has NOC, in the process of acquiring funds.
IndiGo Airlines	Low cost	Main promoters are Rahul Bhatia, managing director of InterGlobe Enterprises, a leading travel services corporation, and Rakesh Gangwal, former chief of US Airways. In June 2005, it was reported that the airline had placed a firm order for 100 A320 aircraft with Airbus. Operations are expected to commence from mid-2006.

Note: This list is not exhaustive.

Compiled from various sources.

Exhibit IV**Comparison of Fares of Various Airlines**

Prices on the Mumbai to Delhi sector for a one-way economy class ticket (per adult).

(As on March 01, 2006)

All figures in INR*

Airline	2 Months Advance	1 Month Advance	One day Before
Air Deccan	1829-2029-2329	1679-1779-2179	2779
Air Sahara	3667-5389	3667	3849
Jet Airways	3229	3229-3656- 4283	3849-8464-9514
KFA	3739	3299 - 3739	3299-3739-4399-5939
SpiceJet	1799-2049	1799-2399	2249-3249-4049
IA	2479-3744-4404-5944-6824-8464-9514		

* Taxes Extra

Note: The fares for a particular airline may vary depending on seat availability and also across the number of flights being operated in a day. For example, a customer who books his/her ticket from Mumbai to Delhi on Jet Airways, one day before the travel date, can choose from the 12 flights being operated by the airline with ticket prices at Rs.3,849, Rs.8,464, and Rs.9,514.

Compiled from various airline websites.

END OF QUESTION PAPER

Suggested Answers

Integrated Case Studies – II (MB381) : April 2007

Case Study

1. i. KFA, which started its operations in India on May 7, 2005, positioned itself as a budget carrier and not as a low cost carrier (LCC). Low cost carriers are also associated with features such as low quality of service, delayed flight timings, attributes which KFA did not want to be associated with. Hence, Mallya sought to position KFA as high in quality, yet priced within the reach of the Indian middle class. The intention of the airlines was to follow a 'Fly the Good Times' approach which would reflect in the experience offered to passengers. With costs lower than economy class travel on full service airlines and marginally more than the 'bus services' type low cost competition, KFA claims that it offers a far better value proposition. The aircraft and service also aim to reflect the Kingfisher lifestyle imagery and credibility that has been built over the years. Therefore, KFA aims to offer better value than its low cost competitors as the focus is on offering commendable customer satisfaction besides matching prices with full service airlines.

This value proposition helped KFA grow at a scorching pace and attain great success. It's success was evident in several factors:

- KFA started with a fleet of nine aircrafts (seven A320s and two A319s) and operated on 56 routes. KFA also managed to corner a six percent market share within the first six months of its launch.
- As of January 2006, KFA had a 7.6% market share of the domestic air travel market.
- In December 2005, KFA won the 'Best New Airline of the Year 2005' award in the Asia Pacific and Middle East region from the Center for Asia Pacific Aviation (CAPA).
- Later, in January 2006, KFA was voted as the third most successful brand launch of 2005 in the Business Standard annual Brand Derby.
- In February 2006, Skytrax gave KFA the 2006 award for 'Service Excellence for a New Airline'.

KFA's success mainly is due to the fact that it focused on providing superior service and value for money rather than merely low cost air travel. It aimed at attaining a 'wow' level of customer satisfaction through unparalleled levels of service, comfort, and convenience to ensure that they keep

flying the good times. The point is to create satisfaction that no Indian airline has perhaps been able to match.

The service excellence award expresses the opinion of travelers across the board, which is not just a vote about the product facilities offered, but combines customers' very clear perceptions about KFA's service standards.

However, although there was success on one hand KFA faced competition from new low cost carriers as they started an all-out price war by slashing down on fares. Established players like Jet Airways (India) Ltd., (Jet Airways) looked to consolidate their market positions. KFA's ambition to make it big at any cost is evident from the fact that it has set its sights on becoming India's largest private carrier by 2010.

- ii. The Indian aviation industry is characterized by the existence and impending entry of low cost carriers, airlines today. There are also airlines that believe in full service at a higher cost. On one hand service is being perfected, on the other air travel is becoming cheaper and affordable to the common man. Competition or differentiation exists either on the price front or on the service standards front. With everyone using either or both aspects to differentiate there seems to be little left for further differentiation. Distinction is being achieved in terms of increased sales promotions such as Rs.1 ticket etc. The set of strategies remain the same which everyone is seeking to employ in different permutations and combinations. In such a scenario, how does an airline achieve a competitive edge? Perhaps this issue is exactly what Mallya has endeavored to address.

On its maiden flight Mallya wanted his guests to get an inkling of his own flamboyant lifestyle that many aspire to acquire. This was combined with commendable service from an Indian airline. Vijay Mallya ensured that customers associated every aspect of the airlines with his lifestyle and the Kingfisher liquor brand name, thus creating an aura about KFA. The success of using the Kingfisher brand name was evident from the fact that KFA won the award for the third most successful brand launch of 2005. Looking at what KFA has attempted to do, it initially found a gap to fill in the market thus taking care of immediate competition on one hand and on the other, for long term value addition, sustenance and winning customer loyalty, it is trying to create a competitive edge through its Kingfisher liquor brand name and by providing a complete lifestyle experience to customers. It has tried to project the brand as an aspiration product for the youth for whom Kingfisher represents vibrancy, color. The 'Funliners' will have the same positioning. The values and goodwill of the Kingfisher liquor brand are being superimposed to the airlines as well. Simultaneously, Mallya's has an uncompromising attitude of attaining success by doing all that it takes to make KFA the preferred choice of its guests. This attitude is reflected in the way service is imparted to customers. In the long run the loyalty that the brand image would help to bring about will be the winning edge that KFA will have.

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2. The Indian aviation industry has undergone tremendous changes since its inception in 1953. These changes have made it more conducive for private airlines to be a part of the game. Back in 1953 government owned Indian Airlines Corporation (IAC), which catered to domestic air travel passengers and Air India International (AI), which catered to international air travel passengers, had a monopoly over the Indian skies. And this state of the industry continued for several years. In 1994, a third government-owned airline, Vayudoot, which provided services between smaller cities, was merged with IAC. Until the mid-1990s' these government-owned airlines dominated India's air travel industry.

In 1994, IAC was renamed Indian Airlines (IA). In the same year, the Indian Government, as part of its "open skies" policy, ended the monopoly of IA and AI in the air transport services. Private operators were thus allowed to provide air transport services. Foreign direct investment (FDI) of up to 49 percent equity stake and NRI (Non Resident Indian) investment of up to 100 percent equity stake were permitted through the automatic FDI route in the domestic air transport services sector. However, no foreign airline could directly or indirectly hold equity in a domestic airline company. The changes largely altered the scene of the Indian aviation industry.

From a monopoly the industry now (by 1995) had six private airlines accounting for more than 10 percent of the domestic air traffic. But even as competition set in, during the next couple of years, only Jet Airways and Sahara managed to survive the competition; NEPC Airlines, East West Airlines, ModiLuft Airlines, Jagsons Airlines, Continental Aviation, and Damania Airways lost out. IA, which had dominated the Indian air travel industry, began to lose market share to Jet Airways and Sahara, which provided better services. From a 100% domestic market share in 1994-95, IA's share had gone down to 36% by 2000-01. This was the first phase of the changes in the Indian aviation industry where monopoly gave way and private players found room to operate and compete. However, there was much to be achieved. At this point air travel was still considered a mode of transport for either the business community or the wealthy. Air travel was still

out of reach for the common man.

The air travel industry saw a revolution when in 2003, Air Deccan, a subsidiary of Deccan Aviation Private Limited, started its domestic air travel operations as India's first low cost carrier (LCC). Air Deccan's low fares ensured that air travel was more accessible to the middle class Indian. Air Deccan, which described itself as an airline for the 'common man', even brought down fares to Rs.1 in some of its promotional schemes. Air Deccan's rapid growth encouraged other LCCs to start operations. The number of domestic passengers had increased from 26.36 million in 2001-02 to 40.09 million in 2004-05. After KFA's launch, SpiceJet, Paramount Airways, and GoAir had started their operations as LCCs. Other airlines which planned to start operations were Indus Airways, Air One, Magic Air, East West Airlines, Interglobe, Crystal Air, Visa Air, etc.

Now as recently as 2005, the industry saw the launch of Kingfisher Airlines, which has attempted to fill the gap between the LCCs and the high priced airlines. With the rise in passenger traffic and the success of LCCs like Air Deccan, Mallya felt that it was the right time to launch KFA. The Indian aviation industry is now one of the fastest growing markets in the world and is marked by growing competition on fronts such as price and service. In this intense competition what is to be seen is how airlines can differentiate their offerings to provide greater value to customers in order to sustain in the long run.

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3. KFA started its operations at a time when several low cost carriers were also coming into the market. And also when full service airlines such as Jet and Sahara combined to pose increased competition. Therefore, it became all the more imperative for KFA to differentiate its offering in order to succeed. KFA differentiated in terms of the various elements of the service mix.

In terms of the product or service offering key elements of KFA's differentiation strategy were:

- KFA's overall strategy was to provide value added air travel services at economical prices.
- KFA's focus was on providing excellent service and thus it was the only airline in India to address its passengers as 'guests'.
- The airline called its aircraft 'Kingfisher Funliners' to represent the fun-filled experience it wished to provide to its customers.
- All the aircraft had in-flight entertainment systems and well designed interiors. There was only one class, i.e., the Kingfisher Class, rather than the economy class and business class bifurcation of other airlines. This strategy of having a single class freed up more space and legroom for passengers when compared to normal economy class seats.
- KFA sought to differentiate itself from other airlines by providing more comfort in terms of larger seats with plenty of legroom and adjustable headrests, in-flight entertainment through personalized wide screens and headphones, which broadcast five video channels and 10 audio channels.
- For the safety of its guests, KFA had sophisticated communication and navigation security systems provided in each 'Funliner' and on the ground. Guests could check the aircraft's altitude and speed or the remaining time of the journey, with the help of a moving map on their personal screens.
- Specialized meals and beverages were served on board during the journey; free gifts were also given to the guests.

These aspects provide KFA a strong basis for differentiating its service from those of other players by offering more comfort, style, entertainment, and personalized services to the guests. The idea is to take air travel beyond just traveling and to ensure a memorable experience for its guests; a complete lifestyle experience. However, customers may or may not perceive this service excellence as getting value for their money. Also customers who are keen about the price factor may still prefer the low cost carriers.

In terms of pricing, KFA differentiated as follows:

- KFA was not positioned as a low cost carrier as passengers would attribute the features of low cost carriers like low quality of service, delayed flight timings, etc., to KFA as well. Hence, the airline was called a budget airline. Fares were above those of LCCs but lower than the economy class fares of Jet, Sahara, and IA. KFA also allowed multiple fare options and auctioning of tickets on all traffic routes.
- During the initial launch, KFA's air ticket fares were 25 percent lower than Jet Airways and around Rs.600 higher than Air Deccan.

However, on the price front there is increased competition from more and more LCCs and after the proposed Jet-Sahara merger was announced in January 2006, Jet Airways brought down fares on specific high-traffic routes thus posing major competition to KFA and LCCs like SpiceJet and Air Deccan. Whether KFA really turns out to be economical for customers remains an issue. The challenge is to be able to tap customers who are flocking to LCCs.

On the promotional front aspects of differentiation included:

- The brand building effort was tremendous. Every aspect of the airline reflected Mallya's own flamboyant lifestyle and the 'Kingfisher' liquor brand, thus projecting a premium brand image.
- The marketing team of KFA showcased the airlines as 'the new flying experience'. Advertisement hoardings at airports depicted the stylish interiors of the 'Funliners', which conveyed a youthful, fun-filled, and world-class image. INOX multiplexes in Mumbai publicized KFA's special offers for a month. KFA was the official travel airline for the cast and crew of 'Mangal Pandey' and gave a red carpet welcome to all the guests who attended the premiere of the film.
- In their brand communication including television ads KFA had the catchphrase 'Kingfisher is flying'. It was advantageous for KFA to use the Kingfisher brand name because normally when an airline launches it has to do heavy marketing and promotional activities; in KFA's case they had the advantage that people are familiar with the brand. For the youth, Kingfisher represents vibrancy, color, and is an aspiration product, which is also the 'funliners' positioning.

A key element of the promotional strategy was the following sales promotion initiatives:

- Making use of various events like fashion shows, celebrity golf matches, New Year parties, and musical nights etc., to build the 'Kingfisher' brand and to create additional publicity and buzz about KFA. At these events KFA sponsored various awards and also gave away free tickets to winners.
- Several sales promotions were launched such as the 'King Card', 'Kingfisher flying face of the month contest', 'Chill Times Offer', 'King Saver offer' etc.
- KFA also targeted the frequent flier business traveler segment by offering a 'King Saver Booklet'. This booklet contained six flight tickets free and was presented as a free gift if the passenger bought two such booklets each worth Rs.26,999.
- 'Power Flyer Offer' (Nov' 95) targeted at business travelers who took same-day return flights. Under this scheme, a guest would be paid back Rs.1,000 in cash if he/she took a return flight on the same day with KFA.
- 'No Compromise' scheme – a single fare was charged for every seat on every flight for a limited period of time. This scheme had no restrictions on the number of seats, unlike the promotional schemes offered by other airlines which offered limited seats at low prices.
- 'Kingfisher Airlines + Hotel Super Saver' – the airline tied up with makemytrip.com, a popular online travel website, to offer travel packages to Goa, Mumbai, and Bangalore. Tourists could save up to 60% percent of their travel and hotel costs through this scheme. This offer also included free air-conditioned car travel to all its guests, from the airport to their destinations within the city.
- Targeting specific passenger segments (for a limited time) by offering special fares for all those currently serving in the Indian army, central government and state government employees, and public sector unit (PSU) employees currently in service. This offer included the spouse, parents, and dependent children of these employees.

Thus KFA attempted to tap various consumer segments in an attempt to build a broad consumer base.

The intense sales promotions were undertaken to promote sales. However, as sales promotions can help boost only short term sales the objective of getting customers to fly KFA to experience flying on it may have been well achieved but it is important to translate these efforts into attaining customer loyalty in the long term.

Another element of the service mix that KFA addressed in its strategy was 'people'

- KFA ensured that it had the best of people to be able to serve its customers better and meet the airlines' high service standards. KFA's flight attendants also called 'flying models' were selected through a national level model contest. They focused not only on good looks but also on pleasant and outgoing attitude combined with hard work.
- KFA appointed Nigel Harwood (Nigel) as Chief Operating Officer with effect from August 1, 2005, to strengthen its management team. The addition of Nigel Harwood underscored KFA's commitment to achieve leadership in the Indian market. Kingfisher Airlines Limited aimed at a first class management team not just at the top most level but also in the second line and this was part of the UB Group's commitment to human resources."

All in all KFA launched an aggressive and sound marketing strategy. A lot of the strategy was aimed at creating differentiation which has been attained in terms to a great brand, service excellence, reasonable pricing etc. All the great promotion and focus on the Vijay Mallya lifestyle element in the airlines may end up creating a lot of hype for the airlines. However, it is important for the airlines to

ensure that this hype does end up remaining only hype in the long run. Strategies definitely need to focus on combating competition, especially from LCCs.

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4. i. Customers expectations and preferences revolving around air travel underwent a massive change when low cost carriers were launched. Until then air travel was assume to be a mode of travel for wither the business class or the rich. The middle class of the common man was no capable of affording or availing air travel. However, this changed with low cost carriers which literally sought to convert the railway passenger into airline passenger. Hence, with the low cost carriers the middle class customer easily transformed to utilizing air travel.

If you give consumers what they want and it's the first time its available, it works. Air travel provided the main benefit saving time and LCCs did it at a very reasonable cost. Consumers got pretty interested to be able to fly at a fraction of what they would otherwise have to shell out. It is so compelling that people have changed the way they thought about air travel. It is no longer a special expenditure.

On the other hand people traveling on expensive carriers are traveling more on business, where someone else is paying. Business travel also is largely utilizing air travel.

Now, air travel consumers have many options available in terms of airlines. Companies are also looking at various segments that can be tapped for air travel.

- ii. KFA endeavored to offer a highly service oriented experience at reasonable costs so that the middle class could also be tapped. It has been able to meet customer expectations in the following ways:

Managing promises made to customers: KFA started of with the promise of excellent service and a lifestyle experience. Testimonials of 'guests' prove that KFA has kept up the service promises it made to its customers. KFA made promises that it was confident of fulfilling.

Reliability: Customers give importance to reliability over anything else. KFA has achieved this aspect well too by 'getting things right the first time'. It has been able to deliver the intended and planned services the first time itself. Their first service encounters were very successful.

Exceeding customer expectations: By offering world class and exemplary service, KFA has catered to providing customers the 'desired service' leading to customer delight. On this front therefore, it has been able to surpass competition as well.

Influencing customer perceptions: KFA has tried to influence customer perceptions by associating every aspect of the airline with Mallya's flamboyant lifestyle. They also aimed at providing customer s a memorable experience, hence attempted to create the perception of great service.

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5. i. **Importance of pricing**

Price has become the prime differentiating factor in the airlines industry. In an earlier era, price-based warfare had been relatively rare across most of Indian business. There did exist a few low-priced manufacturers in many categories but they were assumed to have sacrificed some essential element of quality and performance for offering at a price much lower than the established players. At best, a lower price was an occasional and defensive tactic during times of difficulties, meant mainly to stimulate falling demand in a recession. Companies were guided by annual plans forecasting both revenues and net profits, assuming predictable conditions for at least a 12-month period, taking it for granted that if input costs increased beyond expectations, price increases could be automatic, and could be forced upon the market place to protect one's profit margins.

However, industries are now forced to acknowledge the survival value of pricing decisions. Dropping prices is not just a passing gimmick any more; genuinely steep and permanent price reductions have become part of the game. This is also true of the airlines industry, which has seen the emergence of new price-based competition.

Pricing remains a key issue in the airlines industry, because it has a wider and deeper impact across a business than almost any other managerial decision. It simultaneously affects the demand, sales revenue, profit margins and the break-even level; it also changes the perceptions of all external associates – from distributors, dealers, and customers to bankers and industry analysts – by sending signals about where the management intends the business to go.

Marketing managers are faced with the issue of providing long-term value to customers in order to build long-term customer preference for their brands. In case of consumer durables, customer value can be offered through the lifetime cost of owning, use, repair and upkeep of the product. Thus, values such as performance, durability, reliability and superlative service and warranty handling can be delivered and factored into the real price. In case of services, notably such as airlines, hotels for the

business traveler and banking, the real pay-off to both parties comes from an ascending scale of value (or net gain). Hence, the cost of loyalty reward programs and owner clubs play a real part in the value delivered.

ii. **Survival of Low Cost Carriers**

Looking at the price competition in the airlines industry, about four years ago, Air Deccan had started the trend with discount pricing that had established players like Indian Airlines, Jet Airways and Air Sahara forced to introduce discounted fares and flexi-priced options. Pretty soon, newer airlines joined the grand rush for the skies, and low fares became the norm, as passengers looked around for the most attractive fares rather than preferred airlines. And it wasn't long before the aviation industry was split into two - full service "scheduled" carriers where you expected service and enjoyed a premium, and low-cost carriers where the debate was whether you could even buy a meal on board. All of which is pretty good for the air traveler, but how will the airlines sustain themselves? It's a question many airline officials were already asking before IndiGo dealt them a blow in the solar plexus. It had its ticket priced 60 percent lower than competition. Clearly, at such low fares, airlines won't be able to survive accumulating losses. And thanks to IndiGo, raising already low fares is no longer a consideration. Air Deccan is also running into losses and the pressure amongst players is being felt. Until the company comes out of the red the challenge is to keep your head above water. What you will see is profitless growth, so the key is to survive by financing your losses and, at the same time, expand. With the exception of Kingfisher Airlines, all entrants have chosen to go the low-cost route where the price of the ticket is the only draw.

Clearly, over the last few years something has gone wrong. Is it the low-cost model? Or are low tariffs simply not sustainable? While there has been an unprecedented growth and there are more air travelers every year, the critical issue appears to be the cut-throat price competition that has thrown plans out of gear as no one is able to increase fares.

Finally, as infrastructure constraints force more low-cost carriers to operate during off-peak times, any attempt to raise cheap tariffs to peak time rates will be met with opposition. It needs a huge societal change for the 200 million strong middle class to travel by air, but that inflection point will happen soon. Till then, airlines have to manage their growth and their cash.

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6. a. Despite KFA's major initial success, it faces several challenges – soaring competition on one hand and difficulties prevailing in the aviation industry.

Challenges vis-à-vis competition

- New low cost carriers (LCCs) like SpiceJet and GoAir entered the market after KFA's launch and they started an all-out price war by slashing down on fares. For instance, in December 2005, GoAir started offering 10,000 free air tickets on four new routes (Hyderabad, Chennai, Jaipur, and Bangalore).
- Established players like Jet Airways (India) Ltd., (Jet Airways) too looked to consolidate their market positions. In February 2006, the Jet-Sahara combine brought down their air fares to compete against KFA, and LCCs. The proposed buyout of Sahara by Jet Airways and the price war among all the airlines was an indication of the intense competition building up in the Indian aviation sector.
- Also Air India has plans of launching a LCC.
- Penetration of KFA is not as much as LCCs like Air Deccan which is looking at connecting to smaller cities. Also Air Deccan also flies to exclusive places such as Puttaparthi and Tirupathi where there is heavy inflow of people. The scale at which the LCCs operate also poses a challenge for KFA, as this enables the LCCs to have a greater penetration.
- In this tough competitive environment, maintaining a good passenger load factor (PLF) was the prime concern for all airlines. Since its launch, KFA had an average passenger load factor of 70% to 75%, while Jet Airways had a PLF of 80%. Analysts felt that after the acquisition of Sahara, Jet Airways would leverage on its market strength to reduce fares and take on KFA and the other LCCs.

Industry challenges

- Besides facing tough competition, KFA faces other challenges which affected the airline industry as a whole, like high aviation turbine fuel (ATF) prices and congestion problems at high traffic airports like Mumbai and Delhi and inadequate airport infrastructure.
- Congestion at airports delayed the turnaround time of airlines and increased fuel consumption.

- ATF costs, which accounted for around 38% of an airline's costs, coupled with landing and navigation fees and other airport charges, were all fixed costs that amounted to about 50% of an airline's costs.
- These costs were practically out of the airline's control, resulting in less scope for cost minimization. There was also an acute shortage of trained pilots, flight crew, and air traffic controllers (ATCs).
- To survive airlines need to spend more while they earn less. They need cash to sustain their losses and expand their fleets but the cash to fund those expansions might no longer be that easy to come by. Many airline companies had hoped to cash in on the stock market boom, but that dream cannot be fulfilled in the near future because of the poor response to aviation stocks in the market.

Given these challenges, investors and analysts feel that it remains to be seen how KFA would work toward its vision of being India's largest private airline by 2010.

- b. KFA felt that despite the possible bloodbath that would be there, in so-called low-cost airlines who seek to convert the railway passenger into airline passenger, KFA was positioned extremely differently. KFA targeted the growing middle class segment that was net savvy, young and upwardly mobile, with a propensity to spend. KFA expected the Indian air travel market to grow by 20% to 25% on an annual basis and was primarily targeting these new travelers.

Ongoing expansion plans

- KFA's vision of becoming India's largest private airline by 2010 is evident in its expansion strategy. From its inception, KFA had an aggressive expansion strategy, which is why perhaps initial success came quickly to it.
- By the end of December 2005 KFA had nine aircrafts. By placing an order at the Dubai Air Show for 30 A320 and 20 ATR 72-500 aircraft KFA asserted its leadership in India's regional market and confirmed the suitability of ATR aircraft in India. With ATR 72-500, Kingfisher Airlines was to operate state-of-the-art aircraft which combined both jet-like comfort and economics.
- KFA concentrated on increasing the frequency of its flights on city-pair routes like Mumbai-Delhi in order to cater to the needs of corporate clients and business travelers. It also launched flights between Mumbai and Bangalore. In August 2005, a Mumbai-Goa flight was introduced in addition to a Delhi to Goa flight with a stopover at Mumbai. A Bangalore to Goa flight was introduced for business and leisure travelers. New flights were launched between Mumbai-Kochi, Chennai-Bangalore-Pune-Ahmedabad. With these, the total number of KFA's daily flights increased to 56.
- KFA launched 'Kingfisher First', an upgraded business class service on all flights between Mumbai and Delhi. This move was seen as a shift from its earlier 'single class' strategy. However, KFA said that it was adapting to the changes in the Indian air travel market. With the growth of the economy and the rise in disposable incomes, Mallya believed that more people were willing to spend for premium services. KFA was perhaps trying to cash in on its upwardly-mobile image and attract business class passengers, in its endeavor to become a profitable airline at the earliest.
- KFA has decided to increase its dollar revenues by targeting the NRI passenger travel segment and appointed some general sales agents in Europe, North America, and the Gulf countries to sell its tickets.
- KFA also signed an agreement with the Sharjah-based Air Arabia, a low cost airline, so that passengers from Kolkata, Delhi, Goa, Kochi, and Bangalore could avail the low prices for traveling to the Gulf region. These passengers could log on to Air Arabia's website and select a destination and with this single ticket they could travel on KFA to Mumbai and from there to the Gulf on Air Arabia. The total fare was approximately 30 percent less than that of other airlines.

KFA can realize its vision by 2010 provided it turns into reality its expansion plans that are in the pipeline:

- KFA's plans to make an IPO (initial public offer) and raise around US\$ 200 million that would be used for its fleet acquisition and route expansion. This can be taken up in the event of good outlook for aviation stocks. The alternative is private placement or raising debt from the market.
- The survival of LCCs in the long run can be questioned as at such low fares airlines may not be able to sustain accumulating losses. Low cost airlines are cutting into their own pockets and may not be able to survive. This could turn out to be a benefit for KFA.
- KFA set up Kingfisher International Inc. (KII), a subsidiary in the US, for its international operations. KFA planned to operate on international routes by the end of 2007. But KFA had yet to receive permission from the Indian government. According to the government regulations, a

domestic carrier was not allowed to fly international routes without five years of domestic flying experience. But Mallya's ambitions don't seem to be dampened by any such possible obstructions. Mallya plans that if he fails to convince the Indian government to change its rules, he would start an airline in a foreign country and fly to India.

- Kingfisher can adopt the acquisitions pathway for growth. With the Sahara-Jet combine now falling through, some buyouts can be expected.
- So far Kingfisher's strategies seem to be well in tune with its ambition. In the years ahead Kingfisher can look at launching a low cost airline so that it can compete with LCC carriers in that segment. KFA has plans launching 'Kingfisher express'; these plans can be put into action.
- In order to face the shortage of manpower, KFA can come up with its own training schools for pilots etc.
- Having invested in the best-in-class fleet of aircraft, KFA's commitment can help it to achieve its goal of becoming India's largest private airline both in capacity and market share by 2010
- Continued focus and increased offerings in terms of promotions can help earn more and more loyal customers and broaden customer base.

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- [1] www.travelblog.org/Asia/India/New-Delhi/blog-37466.html, January 10, 2006.
- [2] "Kingfisher Airlines bags yet another global award -- wins the 2006 Skytrax Award for Service Excellence for a New Airline," Business Wire News Release, February 21, 2006.
- [3] Skytrax is a leading research organization in the aviation sector. It was established in 1989 and is based in London, UK. Skytrax advises airlines, conducts customer satisfaction studies, and airline/airport quality surveys.
- [4] Rituparna Chatterjee, "High flyer- brand launch most successful," www.businessstandard.com, January 17, 2006.
- [5] The Airbus A320 is a short to medium range commercial passenger aircraft manufactured by Airbus. It was the first airliner with a digital fly-by-wire flight control system wherein control inputs from the pilot are transmitted to the flying surfaces by electronic rather than mechanical means.
- [6] Airbus is one of the world's leading aircraft manufacturers and recorded revenues of Euro 22.3 billion in 2005. The company manufactures 12 aircraft models which also includes the 555-seat A380. The A380 will be the largest civil airliner ever when it enters service at the end of 2006.
- [7] "Kingfisher Air to have models as air hostesses," www.thehindubusinessline.com, July 29, 2004.
- [8] This award honors newly established airlines that have made significant impact in the markets they operated in and their contribution to the development of aviation in the region.
- [9] Center for Asia Pacific Aviation (CAPA) is a reputed consulting group in the aviation sector for the Asia Pacific and Middle East regions. It provides information to governments, regulatory agencies, airports, airlines, and suppliers.
- [10] "Kingfisher Airlines wins the CAPA award for "Best New Airline of the Year" in Asia Pacific & Middle East," www.flykingfisher.com, 2005.
- [11] The Brand Derby survey from Business Standard, a popular Indian business newspaper, is an annual survey conducted by Indica Research, a leading market research firm. In the 2005 study, 42 brand launches were surveyed among 76 senior marketing professionals in five Indian metros -- Mumbai, Delhi, Kolkata, Chennai, and Bangalore.
- [12] "Kingfisher Airlines bags yet another global award - Wins the 2006 Skytrax Award for Service Excellence for a New Airline," <http://uk.biz.yahoo.com>, February 21, 2006.

[13]

SpiceJet was a no-frills low cost carrier, which began its Indian operations in May 2005. Initially, SpiceJet operated a fleet of Boeing 737-800s that had single class configuration. In March 2006, SpiceJet reported that it had recorded net sales of Rs.1300.8 million and a net profit of Rs.43 million for the quarter ended February 2006. As on March 2006, SpiceJet covered 11 destinations in India.

[14]

GoAir is a low cost airline promoted by the Mumbai-based Wadia Group. It launched its services in November 2005.

[15]

Jet Airways is a full service private airline carrier which began its domestic operations in May 1993. As in 2005, the airline had a fleet size of 53 aircraft and covered 48 destinations (43 domestic and 5 international). The average age of the aircraft fleet was 4.9 years, which was one of the youngest in Asia. The international destinations were Colombo, Katmandu, Singapore, Kuala Lumpur and London. The airlines revenues for the financial year 2004-05 were Rs.43.38 billion and net profit of Rs.3.9 billion.

[16]

Air Deccan was India's first low cost carrier and started its operations in 2003. As in 2005, Air Deccan had a fleet size of 29 aircraft and covered 57 destinations in India. The airline planned to come out with an initial public offering for 25% of its shares by May 2006.

[17]

"Kingfisher Airlines takes-off," www.domain-b.com, May 09, 2005.

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"Civil Aviation," Press Information Bureau, <http://pib.myiris.com>, 1999.

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"Air transport statistics, 2003-04," <http://dgca.nic.in>, 2004.

[21]

Established in 1995, Deccan Aviation Private Limited was India's largest private heli-charter company.

[22]

Air Deccan sold about 2,000 tickets at Rs.1 (+taxes) every month starting from June 07, 2005 to July 31, 2005 on all its routes. 1 US\$ was approximately between Rs.44 to Rs.45 in the year 2005.

[23]

Perna Raturi, "Why Indian Airlines changed logo, name," www.rediff.com, January 25, 2006.

[24]

"Kingfisher Air to have models as air hostesses," www.thehindubusinessline.com, July 29, 2004.

[25]

JetBlue Airways is a budget carrier operated by the JetBlue Airways Corporation, based in New York. The airline was launched in 2000. Though the airline is a low cost carrier, it provides single class configuration with value-added services like 24 live satellite TV channels, e-tickets, and Internet-based reservations.

[26]

Sanjoy Majumder, "India flies into budget air travel era," <http://news.bbc.co.uk>, May 09, 2005.

[27]

"Kingfisher Airlines to fly good times in Jan," www.indiantelevision.com, July 28, 2005.

[28]

The tagline for the Kingfisher Beer brand was "The King of Good Times".

[29]

www.flykingfisher.com, 2005.

[30]

ACARS is the acronym for Aircraft Communication Addressing and Reporting System. It is a digital data link system for transmission of small messages between aircraft and ground stations via radio or satellite. It enables the ground staff to monitor and track the aircraft all the time on real time basis to know about any deviations in flight parameters. This will also help in quick turnaround of the aircraft.

[31]

Mohini Bhatnagar, "Low cost, frills chic," www.domain-b.com, February 01, 2005.

[32]

INOX Leisure Ltd., a subsidiary of Gujarat Fluorochemicals Ltd., has a chain of multiplexes in various cities across India.

[33]

'Mangal Pandey: The Rising' was an Indian movie (made in Hindi and English) based on the life of Mangal Pandey, an Indian soldier who led a revolt against the British in 1857. The movie starred leading actor Aamir Khan and was released in August 2005.

[34]

The Kingfisher Derby is a prestigious horse racing event conducted every year (during July) in Bangalore. It has become a prominent social event for India's rich and elite. Mallya is also an avid horse breeder and owner of many prize-winning race horses.

[35]

India celebrates its Independence Day on August 15th.

- [36] ICICI Bank is India's largest private bank. It offers a wide range of banking products and financial services to corporate and retail customers. In 2005, it had over 550 branches spread across India and was also actively expanding its overseas presence.
- [37] As on November 2005, Jet Airways had over half a million frequent fliers.
- [38] MakeMyTrip India Pvt. Ltd., is a leading Indian online travel company which provides travel services for leisure and business travelers. Through the company's website www.makemytrip.com, customers could book air tickets, hotel reservations, car bookings, and plan holiday packages.
- [39] "Kingfisher Airlines introduces the King Mobile service," www.indiantelevision.com, December 14, 2005.
- [40] Nanditta Chibber, "Training institutes that are flying high," <http://ia.rediff.com>, July 09, 2005.
- [41] Prior to joining KFA, Nigel was with Airbus, as head of sales for India and Asia. Prior to that, he had served in various senior level positions at Rolls Royce in Asia and the Middle East. He also had the experience of working with major airline companies and startup operators in Oman, Vietnam, and Taiwan.
- [42] "Kingfisher strengthens executive management team," www.flykingfisher.com, July 21, 2005.
- [43] "Kingfisher strengthens executive management team," www.flykingfisher.com, July 21, 2005.
- [44] The A380 is a double-decker, four-engine aeroplane, manufactured by Airbus. It is the largest passenger airliner in the world. Though there were some production delays, Airbus had plans to deliver these superjumbos by end of 2006.
- [45] Avions de Transport Régional (ATR) is an aircraft manufacturer, established in 1981, comprising a consortium of French and Italian companies. The ATR 72-500 is the newest member of the ATR 72 series of short-haul aircraft which can carry 50 to 70 passengers.
- [46] "Kingfisher Airlines orders 20 new ATR72-500 aircraft worth US\$350 million," www.flykingfisher.com, November 20, 2005.
- [47] E&Y is one of the 'Big Four' auditing firms in the world. It is the third largest professional services firm in the world (after PricewaterhouseCoopers and Deloitte Touche Tohmatsu) in terms of revenue.
- [48] "Kingfisher Airlines bids to take over Air Sahara," www.domain-b.com, November 30, 2005.
- [49] An IPO is the first sale of a company's common shares to public investors in order to raise capital. (Source: <http://en.wikipedia.org/wiki/IPO>)
- [50] Shilpa Jamkhandikar, "Kingfisher Airlines to go public in 3-5 months," <http://us.rediff.com>, March 09, 2006.
- [51] "Kingfisher Air not worried about the competition, says Mallya," www.blonnet.com, September 19, 2005.
- [52] Passenger load factor is the ratio of paid passenger seats to the total seating capacity of a particular flight. (Source: http://en.wikipedia.org/wiki/Load_factor)
- [53] 'Kingfisher First' offered passengers benefits like personalized valet service on the ground, sleeperette seats with extendable foot rests, three-course gourmet cuisine, laptop and mobile chargers in each seat, etc.