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# THE FLIGHT OF LOW-COST AIRLINES

Five years after it started, the low-cost aviation model in India is gasping for breath. Value carrier is the in thing

Anirban Chowdhury

**L**ast month, Mumbai-based low-cost carrier GoAir, the only airline still offering fares of Rs 0-99, reminiscent of Air Deccan's pricing in 2004, made a surprise announcement. It added business class to its flights. To a low-cost aviation evangelist, that would be akin to a *kurta*-clad communist devouring Big Mac.

Christened Go Comfort, the new section offers food and other services — the so-called “frills” — and costs more than economy class. The launch of Go Comfort is seen as GoAir's flight into the category of value carriers — a hybrid between a low-cost carrier, or an LCC, and a full-service carrier. “GoAir wanted to study the market at every stage before planning growth,” says Edgardo Badiali, chief executive.

Still, this has increased the clamour that the LCC model cannot survive. The most vociferous is Vijay Mallya, who toyed with the idea of starting Kingfisher Airline, of which he is chairman, as an LCC, but quickly junked the idea and made it into a premium airline.

“If GoAir, which is the recent champion of low-cost carriers, is changing its model, it only proves what I have been saying for so long, that the budget carrier model cannot survive in India,” smirks Mallya.

ma, former chief executive of SpiceJet.

In the last three months, starting August, Indian aviation companies seem to have made a conscious decision to keep a significant gap between the two sections of carriers. “The difference in fares between full-service carriers and LCCs, which was only 15 per cent in April-June, has widened to 30-33 per cent, which is a good sign,” says Sharma.

Still, the only true LCCs left are IndiGo and SpiceJet. That begs the question: has the LCC model flown its course in a short five years? Ironically, the seeds of its demise may have been sowed by the airline that started it all: G R Gopinath's Air Deccan.

## Deccan's chronicle

Gopinath launched the airline with a clear focus: offer rock-bottom fares, fly to every destination possible (including Kandla, Pathankot, Tuticorin, Vijaynagar, Raipur), and make the common man fly. In three years, Deccan covered 65 airports, was operating 350 flights a day with 43 aircraft, and had captured 20 per cent of the market.

Air traffic soared. Places like Raipur, Vizag and Ahmedabad topped the charts as the fastest-growing air traffic destinations in India, show-

in India, smirks Mallya.

Putting his signature where his mouth is, Mallya has transformed Air Deccan, India's first LCC, which merged with Kingfisher last December, into a value carrier and renamed it Kingfisher Red. The other entry into this category has been from the other side: JetLite, which flew under the name of Air Sahara until acquired by Jet Airways. It used to be a full-service carrier when the only other carriers were Indian Airlines and Jet Airways. Having acquired it, Jet has stopped serving food on board and turned JetLite into a value carrier.

The cumulative market share of LCCs has come down from 47 per cent in January this year to 41 per cent in September. Their average passenger load factor has fallen from 65 per cent to 54 per cent. As the aviation sector grapples with a slowdown, the sales of LCCs in September this year over August fell 37 per cent; the drop was much less at 13 per cent for full-service carriers, say travel companies.

As an aside, three LCCs have lost their chief executives in the last five months: Siddhanta Sharma quit SpiceJet, Bruce Ashby IndiGo, and Maunu Von Lueders Go Air.

Experts say Indian LCCs have not been able to price their tickets right and at one point brought their fares very close to that of full-service carriers. "There came a time in June when both LCCs and full-service carriers were offering basic fares of Rs 5,000, which led to passengers making an obvious shift to full-service carriers," says an industry expert.

Who would not? "When you do not offer lower fares, you fail to stimulate the market that an LCC is supposed to stimulate. You have to keep in mind that our target passenger is not the corporate passenger," says Siddhanta Shar-

growing air traffic destinations in India, showing growth rates of 80-100 per cent. Deccan clones — SpiceJet, IndiGo and Go Air — cropped up.

Equally quickly, Deccan ran out of cash by the end of 2006 and early 2007. Experts say Gopinath had spread his costs over too many overheads. He was expanding too fast and needed fresh cash all the time. Increasing capacity was a viable strategy so long as passenger growth stayed high. When the price of aviation turbine fuel, or ATF, skyrocketed with the rise in global crude oil prices, keeping the fares low became difficult. As fares rose, passenger traffic became thinner. Suddenly, there was overcapacity in the industry and carriers began to bleed.

"Deccan's expansion was in sharp contrast with the strategy followed by Spice, which has fortified in one market before moving to the next. Introducing more flights in one destination is more cost-effective than spreading all over, since the same airport infrastructure, manpower, parking slots, and so on, can be optimised to give better yields," says an LCC executive who does not want to be named.

Interestingly, Deccan's merger with Kingfisher and its makeover into first Simplify Deccan and then into Kingfisher Red were accompanied by a crash in its share of the market from nearly 18 per cent in June 2007 to around 10 per cent in August 2008, and a 50 per cent drop in the number of passengers.

## What low cost?

"In India, there is no low-cost carrier, only low-fare carriers. Both full-service and budget carriers have the same cost structure in terms of fuel, lease rentals, staff salaries, and so on," says Rajiv Gupta, former chief commercial officer of JetLite.





