

The Indigo Story

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It may surprise many but India has had a long and cherished tradition of aviation entrepreneurship. The first airmail service on 1911 was demonstrated in India.

On 18 February 1911, a French pilot Monseigneur Piguet took off on a Humber plane Allahabad to Naini carrying 6500 mails.

By 1915, Tata sons had started a weekly mail service between Karachi and Madras. In 1924, the construction of the Dum Dum airport began followed by Allahabad and Mumbai

Neville Vincent a south African aviator and JRD Tata started Tata Airlines in 1932 on a profit sharing basis, where one third of the profit went to Neville and all investment was from Tata Sons.

Tata Airlines was renamed Air India in 1946. JRD tata was offered the chairmanship which he accepted and was Chairman till 1977, despite opposition from his family.

Many Indians were involved with the early development of aviation in India- Maharaja Umaid Singh of Jodhpur, Grant Govan, Seth Walchand Hirachand Joshi, Mirza Ahmed Ispahani, and Biju Patnaik.

Biju Patnaik started off as a private pilot, joined the royal air force in world war 2. His glorious mission came as an aviator when he rescued two Indonesian independence leaders – Sukarno and Sujat Sjahrir, who later became the first president and prime minister of Indonesia.

Patnaik airlifted them from a remote hideout in Indonesia, where they were avoiding capture by their rulers, the Dutch. For this act, Patnaik was honored with the title – BhoomiPutra, Indonesia's highest civilian honor, the only non Indonesian to get this honor so far.

At the end of World War 2, there was a spurt in Airline services since a number of cheap wide body military aircrafts were available.

Starting 1950, global airline traffic grew double digit every year till the Oil crash in 1973.

The fact remains that governments across the world nationalized the airline sector in the 1950s, to help build the necessary infrastructure and also have clear regulatory framework. In hindsight, it worked for the airline industry.

The first airline to fly passenger service was KLM in 1920 when it flew from Amsterdam to London.

The British sensed the potential of the Aviation sector and by 1974 had created BOAC(British Overseas Airline corporation), later British Airways which was privatized by Margaret Thatcher in 1987

The average length of a flight doubled from 903 kms in 1950 to 1816 kms in 2000, but has remained similar at 1812 in 2012.

The pioneers of the LCC (Low cost carriers) were outstanding airlines – Southwest airlines in the USA, Ryan air in Ireland, EasyJet in Europe, Air Asia in Malaysia.

South west has never made a loss in its history – not even after 9/11, when traffic dropped by 30 %. It is the only big airline whose market cap is ahead of revenue.

2016	Turnover \$ Bln	Mkt Cap \$ Bln	Ratio
American airlines	41	21	0.5
Delta	41	34.4	0.82
AirFrance KLM	30	2.7	0.09
Southwest Airlines	20	30	1.5

By 1953, air travel in USA had overtaken train travel. People wanted a reliable airline service, that they didn't have to pay too much for, and were happy with no frills, meaning no extras but still great service. One should not feel cheap or poor flying a low cost carrier.

Ryan air is the largest stand alone airline travel site in Europe. It developed its own ancillary services revenue stream and that accounts for 20 % of its revenues today.

Ryanair keeps reminding people that it's the cheapest – they run a campaign that says – Find a cheaper fare and we will refund you the difference plus 5 Euros to your 'My Ryanair account'

EasyJet says in its campaign – ‘making flying is as affordable as a pair of jeans’.

AirAsia came into being when Fernandes was given a local airline by the Malaysian Government for a token money of 1 ringgit but with all debt and liabilities totaling \$ 11 million. Tony Fernandes mortgaged his house to raise the. Working capital for the airline.

The growth of LCCs in India has been astounding , after Air Deccan in 2005. Today Low cost carriers account for 70 % of Indian domestic market share.

The Narasimha Rao government liberalized airline services in 1991. many entered the fray and closed quickly, they were attracted by the glamour and premium nature of the business but didn't have the capability and the cost mindset to run an airline.

The airlines which have closed since 1991 – Archana airways, Air Sahara, east west, VIF, NEPC, Damania, Elbee, Modiluft, Bharat Airways, Air Deccan, Paramount, Indus, MDLR, Kingfisher.

In 2005, two little known people – Rahul Bhatia and Rakesh Gangwal decided to form Interglobe the company that runs Indigo. On June 16, 2005, they stunned the world by announcing a plan to buy 100 Airbus A320 family aircraft, the single largest order at that time.

Indigo never had a vision statement and still does not have one.

**Indigo basics were around:
on time performance
Low cost connectivity and
high service standard**

Fuel cost and lease rentals account for 50 to 60 % of an airlines cost structure.

Indigo has one of the youngest fleets globally. This leads to better fuel efficiency , higher aircraft reliability and higher passenger appeal.

Indigo became the market leader due to a steadfast adherence to:

a. Cost optimization goals and b, consistency of performance and c, Managing to do more with less.

Kingfisher was market leader in India from 2009 but crashed by 2012. there are many reasons for this.

Kingfisher never had a CEO for 90 % of its life, there was absolutely no control on costs, and they paid a very high price for Air Deccan

Low cost carriers have grown globally because of the availability of secondary airports, that is not true in India. It might happen in the coming years and many cities get a second airport.

In the airline business , growth does not equal to profitability.

Jet airways, is floundering now and it had never had a long tenure CEO, people kept coming and going, and the operational control of the owner was high.

SpiceJet was earlier Modiluft, changed hands to the Marans and then to Ajay Singh. It is better off but still lacks scale. Spice Jets order of 205 aircraft is seen more as optics and less as a good business strategy.

India offers direct air service to 55 countries. International travel is highest to UAE, Singapore, Saudi Arabia, Thailand, Oman and Qatar.

Indigo's strategy both domestic and internationally has been to grow the market. In international routes it offered low fare to take share from international airlines.

In July 2012, Indigo became the market leader in India, overtaking Jet

The airline business has always been tough. Warren Buffett never invested in airline stocks, he made a mistake in 2016. he invested.

Buffett invested \$10 billion in four airline stocks and lose \$ 700 million !

As it grew, Indigo faced the challenge of pilots exodus and deteriorating service. Indigo was also challenged on its on time claims

The DGCA found that the Delhi Indore sector was shown as a 2 hour flight by Indigo while all other airlines flew the same in 1 hour 35 minutes. Indigo is not the best at on time performance with the new DGCA measurement, SpiceJet is!

Indigo's success lessons

- 1. Timing, just as the economy found its feet, not too early**
- 2. Leasing its aircraft from airbus**
- 3. Thinking scale**
- 4. Massive cost focus**
- 5. Punctuality, good service and good aircraft ambience**
- 6. Managing regulatory challenges**
- 7. Growing the market**