Assignment Report

Project Appraisal- Market entry analysis and Product Strategy

Aditya Birla Management Corporation Pvt. Ltd.

Under the supervision of

Dr. Sunny Kumar Singh

By

Krishna Sai Anudeep - 2017B4A41123H

Asish Nelapati - 2017B4A41035H

Anirudh Sreevastav - 2017B5A41122H

Pranav Nair - 2017ABPS1720H

Shreyas Kulshrestha - 2017B3AA1091H

Aryan Pareek - 2018A4PS0580H

Nehal Kaura - 2018A4PS0049H

A Nageshwar Reddy - 2017B3A40975H

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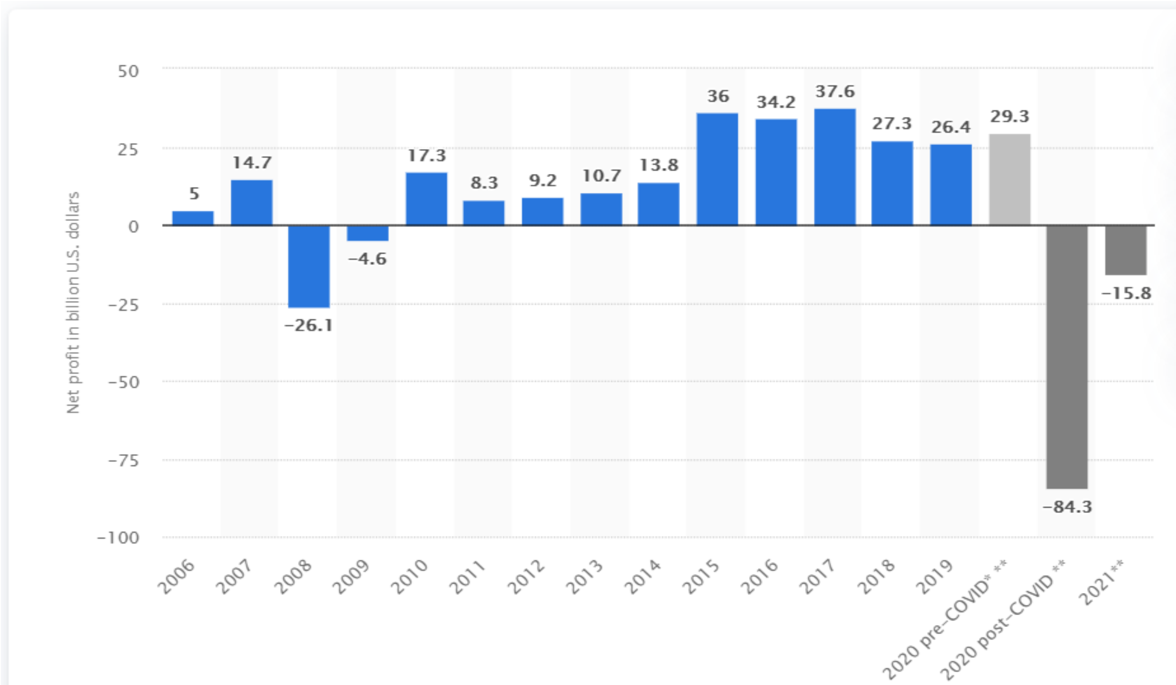
Introduction

Aditya Birla Group, is an Indian multinational conglomerate, headquartered in Worli, Mumbai, Maharashtra, India It operates in 34 countries with more than 120,000 employees. The group was founded by Seth Shiv Narayan Birla in 1857. The Group is built on a strong foundation of stakeholder value creation. With over seven decades of responsible business practices, our businesses have grown into global powerhouses in a wide range of sectors viscose staple fibre, metals, cement (largest in India), viscose filament yarn, branded apparel, carbon black, chemicals, fertilizers, insulators, financial services, and telecom.

On the global scale, as of 2020, profits of Aviation industry are negative, and have been on a continuous decrease not due to covid 19, but ever since early 2018 which should be taken into consideration before considering to enter the market.



At present, India is the third largest and fastest growing aviation market in terms of domestic tickets sales. Looking at these promising numbers a lot of companies are planning to enter this market.

The entry of low-cost carriers pioneered by Air Deccan helped greatly reduce the costs involved in flying. This helped attract consumers for whom air travel was only a dream. Now a number of low-cost airlines are operating in India, namely Go Airways, Spice Jet, and Kingfisher Air, and they have a major share of the Indian aviation sector. Thus, domestic participation in this industry is projected to grow by 25–30% and internationally by 15%, increasing the potential customers by about 100 million in 2010. and Indian carriers are projected to increase their fleet size to 1,200 aircraft by 2024.

In January 2020, IndiGo became first Indian carrier to have an aircraft fleet size of 250 planes and became the first airline to operate 1,500 flights per day. Besides these factors, the initiatives by the government are a further boost to this industry. Its plans to modernize the infrastructure and develop more international airstrips are also proving to be an impetus to this industry. New airports are to be built to handle more traffic and ease the pressure on the existing airfields. Modernization of airstrips in metropolises is also being planned. All these initiatives are through public–private partnerships.

First, we examine the corporate strategy of Birla Group so far before understanding how aviation can add into their corporate strategy.

Corporate Strategy

Aditya Birla group is an Indian multinational conglomerate. It is a highly diversified company. It has businesses in chemicals, fashion, telecom, financial services, supermarket industries.

The three types of corporate strategy include growth, stability and contraction. Aditya Birla group entering into the airline industry would require a growth strategy.

The growth strategy is divided into:

Concentration: strategy to increase market size of existing product range of existing business

Vertical Integration: this refers to entering into different value chains of the same business.

Diversification: foraying into a different business altogether.

Since, Aditya Birla group doesn't have own any business in the airline industry, it would undertake a conglomerate diversification strategy to enter this industry. Such a strategy would be beneficial if any of the current business is limited in scope. Also, the overall risk would be reduced from diversification. Aditya Birla group, being a conglomerate, would not need external capital – it could fund its business from existing cash rich businesses. They have higher debt capacity, which would be an advantage because the airline industry requires huge funds.

BCG Product Portfolio

	High growth	**Low growth**
High market share	Star Ultratech cement	Cash cow Aditya Birla Capital
Low market share	Question mark Vodafone	Dog Aditya Birla Retail

Star: Ultratech Cements is among the top cement companies with high market share in an oligopolistic industry. The growth rate of the industry has been moderate.

Dog: Aditya Birla retail has low market share in an industry which is already reeling due to the rapid rise of the e-commerce industry and the covid pandemic. In fact, Flipkart has already bought a stake in the business. The business has reported financial loss for this year

Question mark: Vodafone has reported huge losses for the year 2019. It has faced immense competition from Jio due to the price war. But the market has huge growth potential in India with internet becoming a necessity

Cash cow: Aditya Birla Capital has a high market share in the NBFCs industry. It has been profitable for the past few years. But the NBFCs industry growth has been estimated to decrease because of the negative sentiment after the collapse of IL& FS.

Aditya Birla group should look to completely divest out of the retail business. The funds released could be used to revive the telecom business. Some part of these funds and the funds generated from the cash cow could be used for entering the airline industry.

Keeping these aspects in mind, we must create an equally competent or better business in terms of product differentiation and also cost effectiveness. In order to achieve the above, the first of the objectives would be to conduct a SWOT analysis followed by a market analysis of the aviation industry. Hence, we start with the SWOT analysis.

SWOT: -

SWOT analysis would mean analysing the Strengths, Weakness, Opportunities, and Threats of a specific subject. This subject can be about studying a project, a company, or even a person. SWOT analysis help to design a strategy to form a plan of action to achieve certain targets. Strengths and Weaknesses are analysed from an internal perspective, i.e., the company's standpoint, while Opportunities and Threats would be from an external viewpoint. SWOT analysis for Aditya Birla to enter into the Indian Market's airline industry has been performed to decide upon the appropriate strategy.

Strengths –

Brand Value: Aditya Birla has been involved in Indian market for a number of years. If it were to enter the airline industry, people would be attracted to its brand value due to it being highly recognized and the company could use that to gather a large number of customers.

Highly trained staff: As Aditya Birla is involved in numerous other businesses, it would not be difficult for them to acquire highly proficient staff from a number of their other businesses, at reasonable rates.

Raising Capital: As the company is a huge conglomerate and has a worldwide presence, it is easier for them to raise capital for the project.

Low Labour Cost: In India, the low labour cost provides ample profits for the company to thrive in the airline industry. In turn, it also employs a vast number of people.

Weakness –

Fixed Revenue: The airline industry has a high spoilage rate i.e. once the plane departs, the empty seat is non-revenue producing. Considering the stable and secure businesses, Aditya Birla has invested in, it would be a risk to invest into airlines where there is a loss for every seat unoccupied.

Expensive: Being the safest and fastest mode of transport, flight tickets are still costly, and their policy disbursements can be sometimes led to loss of profits.

Dependant on other industries: The Indian airline industry is highly dependent on sectors such as tourism and corporate travel. In times of pandemic, or a recession, other industries face huge losses, which trickles down to the airline industry. It would be a risk for Aditya Birla to invest in an industry whose profitable running is dependent on so many sectors.

Opportunities –

Technological Advancement: With further advancement in technology, many ground processes automating and fuel-efficient aircraft might come into the picture, leading to increased profits.

Increased revenue: Due to an increase in the in-flight services and goods, these products will also increase profits as the people buying them will pay for them separately.

Airlines to be used for cargo: Rather than carrying people, airlines can also be used to carry cargo, thereby cutting costs from empty seats and, at the same time, moving large amounts of cargo from one place to another.

Increase in per-capita income: Due to the rise in income, more people have been using the airline industry for transport. It has been observed that the number of people traveling by airline has been increased gradually.

Threats –

Rising fuel costs: The fuel cost has been ever-increasing, which will make the flights inevitably more expensive. Though individual airlines have emerged with efficient fuel consumption, a maximum number of airlines are still dependant on standard amounts of fuel.

Taxes imposed by the government: The government has set a high rate of taxes on the airline industry, which has reduced overall profits.

Terrorist attacks: Airplanes have been regarded as one of the safest modes of transport. Regardless, it is not uncommon for airplanes to be held hostage. This is due to the cut-off of the plane from the rest of the world during its flight.

Highly competitive industry: The Indian airline industry has become a highly competitive one due to the increased number of airlines like Indigo, SpiceJet, which are already in the market and are competing with one another in ticket prices, staff, flight experience, in-flight service, etc.

After understanding these internal factors for the industry, we wish to examine how external factors could influence our project. In this regard, we do a PESTLE analysis to examine the external factors.

PESTEL ANALYSIS

Political factors:

The political environment of the airline industry is highly regulated due to the reason that the global airline industry gives importance to passenger safety and so they have turned to higher regulations for the operation of the airlines. There is also deregulation on the supply side which has led to more competition between airlines and there is also regulation on the demand side which means that the passengers can press for more amenities and low prices.

- In August 2020, the government approved 78 new routes under UDAN 4.0 to enhance connectivity to remote and regional areas of the country.
- In January 2019, Government of India released its National Air Cargo Policy Outline 2019, which envisaged making Indian air cargo and logistics the most efficient, seamless and cost and time effective globally by the end of next decade.
- As per Union Budget 2019–20, the Government will promote aircraft financing and leasing activities to make India's aviation market self-reliant.

Economic factors:

It is very difficult for the global airline industry to recover from the aftermath of the 911 attacks and with this, there’s also recession. The other reason is the fluctuations in the oil prices due to the Second Iraq War and the sudden spike in the oil prices before the great recession of 2008. Due to the global economic slowdown, the airlines are struggling the main reasons being declining passenger traffic, competition from low-cost carriers, fuel prices being higher, labor demands and high costs of maintenance and operating costs. Due to these reasons the airlines have gone to heavy losses and have been prone to bankruptcies and closure because they could not afford to profitably run their operations. This has led to many mergers and acquisitions in the airline industry

- India has been projected to be the second-fastest-growing country in the world for passenger traffic by the Airports Council International (ACI) in its traffic forecasts between 2017-40.

- Government agencies project requirement of around 250 brownfield and green-field airports by 2020.
- The Aviation sector in India currently contributes $72 bn to GDP.
- India is the fastest-growing aviation market and is expected to cater to 520 million passengers by 2030

Environmental factors:

Passengers are counting their carbon footprint with climate changes entering social awareness as the passengers are nowadays more environmentally conscious. This has forced the airlines to adopt green flying and they are being more responsive to the concerns of the environmentalists. The airlines are concentrating a lot on their CSR activities due to the social responsibility initiatives becoming more pronounced.

- Limit the hazardous waste coming from the disposal of the production according to Govt. of India
- Recycle the raw materials
- Eco-friendly material to be used in manufacturing.

Social Factors:

Social changes of a generation have to lead to more demanding customers in terms of services. So, the airlines have to balance their costs with their increasing demand. The profile of passengers has also changed, there are more economic passengers than business passengers who prefer advanced communication facilities due to new technology rather than flying down to meet their business partners.

Legal Factors:

The number of lawsuits against airlines from workers as well as the customers has gone up. The regulations are also being strict with the airlines and they are coming out with new strategies and they are bothered if the airlines are violating any laws, each and every move of the airlines are being analysed regarding the delays, safety issues and other fears.

Technological Analysis:

The airline industry uses technology highly in its operations so they are often recommended to make use of advanced technology for the front as well for the back office and mobile technologies need to be adapted for ticketing, distribution and customer service. There's also a need for social media to be leveraged by the airline industry.

In combination to PESTLE analysis, we proceed to do a Porter's Five Forces to identify how aviation industry in India is performing and how each of the factors could effect Birla Group's entry into aviation market.

Porter's Five forces

Bargaining Power of suppliers: (Very low)

The bargaining power of suppliers in aviation industry depends on the factors of production of aviation services, it would be namely the skilled labour in aviation industry, manufacturers of Airplanes and control over airports.

In case of Birla Group, there would not be any particular edge that the Birla group has got over service providers that would make them attractive for skilled labour. Consequently, there would not be any change in availability of skilled labour that Birla would get in the aviation industry.

The manufactures of aircrafts in the industry have a duopoly, this would mean that Birla Group would have little to no bargaining power due to a not very competitive market. In India, control over airports is not a private affair, hence, no private party would have any bargaining power.

Bargaining Power of Consumers: (High)

Bargaining Power of Consumers can be understood from studying how discounting and pricing situation is in the industry and sensitivity of market to prices.

Due to extremely competitive market of service providers, the pricing is quite aggressive in the aviation industry and also, the market is quite price sensitive. Because of little product differentiation in the industry, price is the prime factor for choosing one service provider over another, hence, driving the consumers bargaining power even higher.

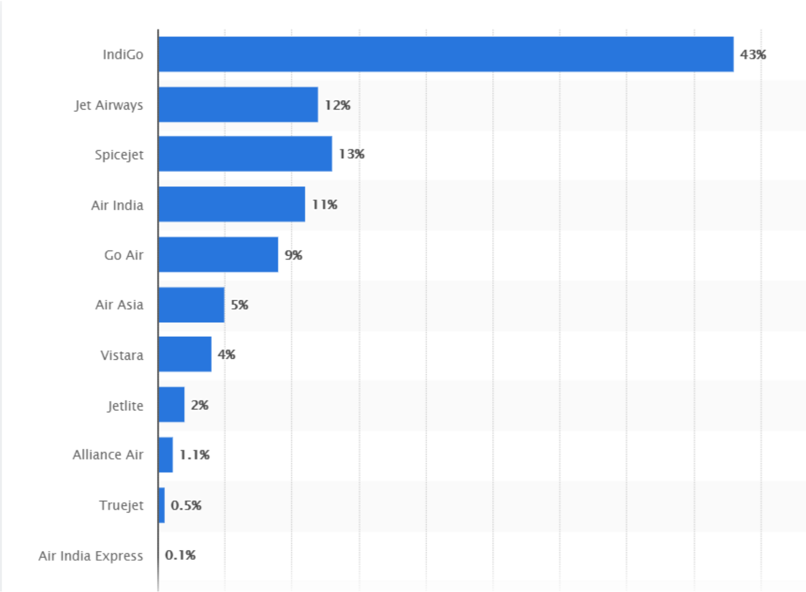
Threat of New Entrants: (Low)

Threat of new entrants depends on factors such as Amount of investment required in the industry, Maturity of the existing market, Horizon of investment and profitability of the industry.

One of the prime factors for entrants in any industry would be size of investment, if the investment necessity is high, lesser and lesser number of players could afford to invest. Because in the present situation, aviation is not very profit yielding, debt players would also not be very keen in giving loans or would give loans at higher interest rates, hence, there would be little to no threat from new entrants. That said, the extent to which aviation industry is utilized in India is much lesser compared to other countries, hence there is still scope for maturity in the market.

Rivalry between existing firms: (Medium to High)

To understand how the competition is, we need to take a look at the market players and the market capture situation of various players.



The extent of aggressiveness between rivalry could be understood from how pricing in the industry is and how market capture has been.
Currently, in the Indian aviation industry, there are only three players who are projected to go in profits, those are Indigo, spice jet and Go air. This goes to show that market capture is not the exclusive factor for profitability, hence rivalry is present but it's not as high as one would expect by looking at aggressiveness of pricing.

Pressure from substitute products: Low

The substitutes for air transportation industry in India are not as mature as in other countries. The main competition should come from railways and intercity bullet trains which is not seen to very competent in terms of travel time and international passenger flights have little to no substitutes. But in terms of goods transport, Indian aviation has a high competition of pricing, i.e., for goods transport, railways and roadways are more preferred over aviation services regardless of transportation time.

Based on all the tools used and analysis done above, it's can be inferred that the competition is tight and that the players are optimistic based on all the future projections of growth in the industry. Also, it should be noted that the market is not very mature and there is still a possibility of achieving monopoly or oligopoly provided that our project outstands the competition in the short run and could sustain for a longer period and, we must develop a strategy to achieve the same.

Business Strategy

Porter's generic model is used to compare strategies across business units

Cost Leadership

This strategy involves providing a service/product at an affordable price by focusing on cost reduction through tight cost reduction measures at every stage.

In the airline industry, this can be achieved in the following ways

Efficient operations: This means reducing waiting times for the passengers by ensuring that flight leaves on time. This can be carried out by employing a single aircraft. The technical expertise required for the pilots and also for maintenance will be uniform. So, in emergencies there won't be shortage of manpower. Also, automating the entire ticketing process would save time and money.

On-flight costs: Reducing leg spaces to increase flight capacity, no provision for free food during flights can reduce costs. To reduce the fuel costs, strict baggage rules should be applicable.

Type of flights: Flights should be domestic, which means flight times would not exceed three hours. This will reduce the fuel costs, since for most international flights a stopover is required. Also, the target should be high frequency flights to maximize the flight capacity. But at the same time operating between busy airports could increase waiting times due to air traffic. So, an optimal balance should be formed.

In the US, Southwest airlines has implemented this strategy quite successfully. In India, airlines like AirAsia have implemented a similar model.

Differentiation

This strategy involves providing a service/product that consumers consider to be unique/ different in some aspect which justifies their higher prices. This is accomplished in these ways:

Brand value: The brand should be marketed in such a way that projects the company as unique and luxurious.

Customer satisfaction: Providing a high quality of services is key to customer satisfaction. These may include providing food even on shorter flights, more leg space for passengers, having entertainment options on longer flights (movies, tv, music). Also, building a customer support system to answer any queries helps build customer trust. Business class passengers should be given first preference during boarding. All the above services help build reputation among customers.

Other services: These might include tie-up with airport lounges to provide free access to passengers, providing cab services to and from the airport etc.

Etihad airways is one airline that has adopted this model. It is known worldwide as a premium brand.

In India, almost all airlines, even Indigo airlines which has 50% market share in the industry consider themselves as low cost airlines. India is still a developing economy where the majority of the population lies in the middle-class segment. So, the majority population is very price sensitive. Over the past few years, the domestic aviation market has grown in India.

Considering the above factors Aditya Birla group should look to employ a cost leadership strategy to enter the aviation market. This way it would be easier to gain market share. Also, entering the high segment would require huge investments and it would also take a lot of time to build customer reputation. Maybe after establishing itself as a low-cost carrier it can look to target the higher segment.

Now that we have established a strategy, we would have a brief look at the life cycle expectations of the project

Product Life Cycle:

Product Life Cycle involves all the phases through which a product goes through, right from when it is a mere idea until it is finally removed from the market (Either due to Saturation or Decreased Demand or Less Sales). It mainly involves three phases: Introduction, where the product is launched into the market after R&D; Growth, where the product is established in the market and gradually increases its market share; Maturity, which is a peak point for sales and where the product needs to maintain the market share or it can lead to a fourth phase, which is Decline where the product probably dies. Let’s analyse what needs to be done in each phase.

Introduction:

Airline Industry’s products are intangible unlike the manufactured/assembled products. The products(/services) include Route Optimization, Fare Structure, and In-Flight Products & Service. Costs are higher than revenue during initial days, but the aim is to acquire customers and make a mark in the market. The sales can be very low because we are a new entrant.

Objectives:

- The marketing objective in this phase has to be to prompt prospects to try and promote the product at the expense of profits.
- Follow Penetration Pricing Strategy where the costs of travelling are comparatively low. This attracts customers to switch to New Brand from the well-established ones because of the affordability.
- Introduce Marketing Strategies which attract people towards airlines. People must gradually shift their conventional way of flying from via Road/Rail to via Air. And if we are the first company they prefer to fly, we have expanded the market as well as acquired customers.
- Product Innovativeness always spreads word of mouth. In-Flight Products and Services should be creative! The Personal Screens can be loaded with Premium Subscriptions, Cosy Chairs, Selective Flat Beds, etc.,

Growth:

This is the phase where people know that we exist as an Airline company, but are either travelling through other Airlines or aren’t travelling through Air at all. The profits begin to rise, competitors begin to notice our impact on market and take counter-actions, costs might reduce due to large scale operations.

Objectives:

- Acquisition of a rival in the market to expand the operations to a large scale, and to increase the market share.
- Entrance into new Geographical segments (Countries) using the existing successful strategies.
- Marketing Strategies to expand the market by bringing in new customers, and thus expanding market share too.

Maturity:

The Sales are at peaks, Market Saturation is reached, and the Market Share is almost at the peak. Brand building and differentiation is crucial to maintain the market share during this phase.

Objectives:

- The competitors with less market share are pushed out of business and thus their market share has to be targeted upon in this phase.
- The phase of maturity should last really long or the company will start declining. Innovativeness is key. Pivoting company to meet the new demand and technology is a necessity.
- Shouldn’t allow new Market Entrants to establish themselves. Focus on Pricing and other details of new entrants and act accordingly, to not lose existing customers.

Conclusion:

The best strategy to establish a new entrant like Aditya Birla Pvt. Ltd. in Aviation Industry (after, Analysing the current market trends and Understanding the Competitors using Porter’s Five Forces Analysis, Demand of the Airline service, PESTLE Analysis, finding own Strengths and Weaknesses using SWOT Analysis, Planning the Corporate & Business Strategies using BCG Matrix, and Architecting the Product Life Cycle) seems to be to making a market penetration and achieving long sustenance through price leadership.

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