The Fall of JET AIRWAYS

A case study to find what really went wrong for the top leading Indian Airline company?

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Introduction to Jet Airways

- Jet Airways (India) Ltd is an Indian airline based in Delhi NCR, with a training and developmental centre in Mumbai.
- The airline went public in 2005 and in 2007, when it acquired Air Sahara.
- Before the founding of Vistara in 2015, it was the only full-service airline based in India apart from Air India.
- With its competitors, mainly SpiceJet and IndiGo, lowering ticket fares in the following years, it was forced to follow suit, hurting overall performance resulting in steep financial losses.
- Apart from Jet, Indian Tycoon Vijay Mallya's luxury airline Kingfisher Airlines was grounded in the year 2012 for its inability to pay debts and the lack of operating expenses.
- Jet had a most significant market share of 22.6 per cent in 2010 but had to experience a setback and forced to take a second place after IndiGo. Jet reported a reduced passenger market share of 17.8 per cent in 2017.

Details	Information
Founded	1 April 1992
Commenced operations	5 May 1993
Frequent-flyer program	Jet Privilege
Airport lounge	Jet Lounge
Subsidiaries	Jet Lite
Fleet size	101 (+49 Orders)
Destinations	76
Company slogan	*The Joy of Flying*
Parent company	Tailwinds Limited
Headquarters	Mumbai, India
Revenue	Rs. 145,225.80 million (US$2,897.25 million) (2010-11)
Profit	Rs.858.40 million (US$-17.13 million)
Key people	Naresh Goyal, Founder & Chairman , Nikos Kardassis, CEO Ali Ghandour, Director

So, what went wrong?

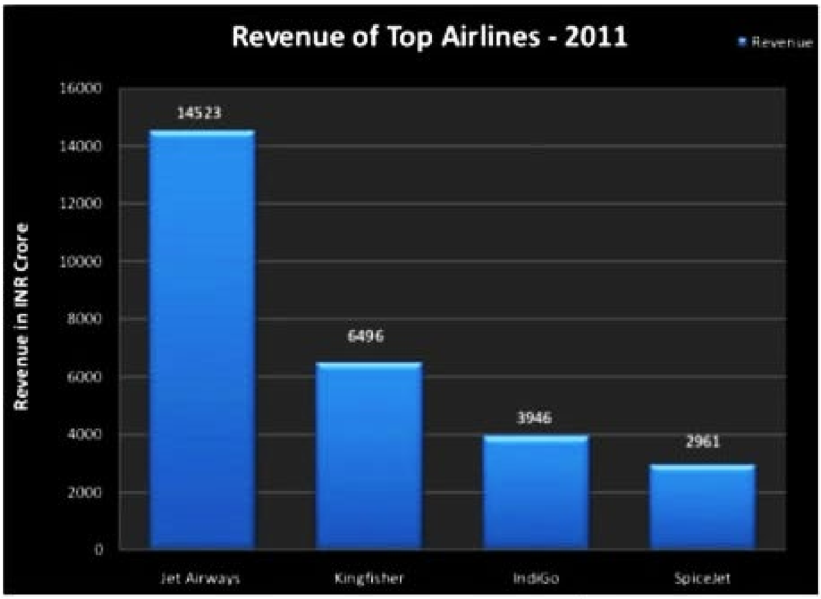
Before we begin with how things went awry for Jet and Mr Goyal, let's have a look at the dream run of Jet Airways. It is critical to understand because we are talking about a company that was ‘Vocal for Local’ long before it became a symbol of pride to tout Indian roots for a brand. It took the Indian aviation industry and transformed it. Before Jet, it was state-run and state-controlled Air India that didn’t give you any reason to write home about. Be it service or punctuality-Jet revolutionised the aviation sector and how!

Mergers and Acquisitions

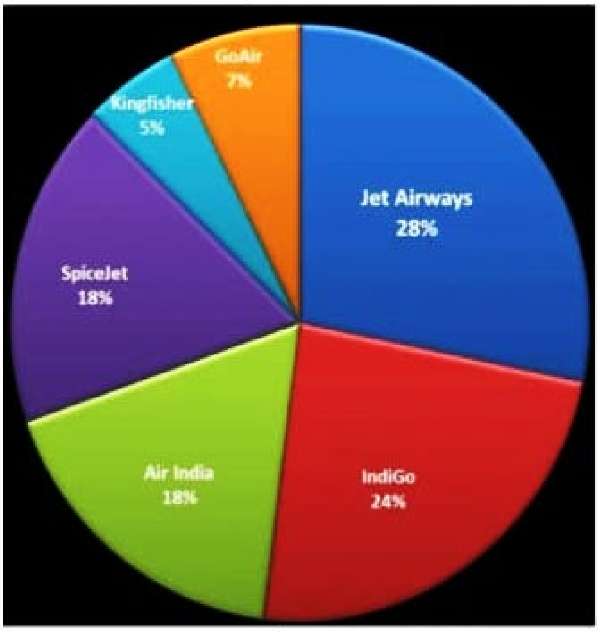
In January 2006 Jet Airways announced that it would buy Air Sahara for US$500 million in an all-cash deal, making it the biggest takeover in Indian aviation history. On 12 April 2007 Jet Airways agreed to buy out Air Sahara for INR14.5 billion (US$340 million). Air Sahara was renamed JetLite, and was marketed between a low-cost carrier and a full-service airline. In August 2008 Jet Airways announced its plans to completely integrate JetLite into Jet Airways.

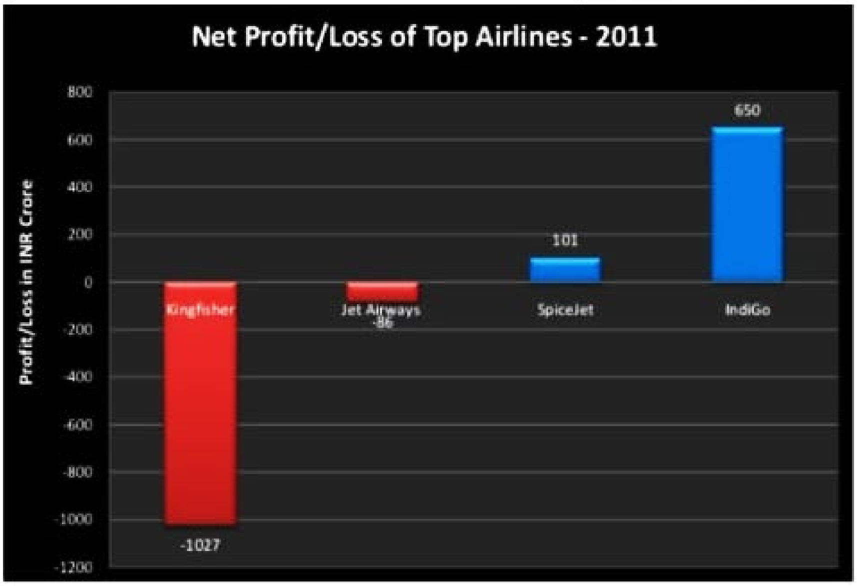
The Marketing Mix Case Study of Jet Airways

- A fleet of 117 aircrafts comprising Boeing 737, and ATR 72-500
- Intangible products including mobile check-in for guests, a 24/7 customer care accessible via internet or mobile
- Exclusive airport lounges for ‘Jet Privilege’ (Later, InterMiles) customers
- Services for people with new-born kids, babies, expectant mothers, people with special abilities or medical issues
- The first-class seating had in-bed extra-wide room, personal television, closing cabin door, private wardrobe and exceptional food and beverage services. Economy class was a toned-down version of business-class privileges.
- It offered concessional prices and special offer for students, senior citizens and armed forces veterans to induct and normalise air travel in the middle-class segment.
- It had banked on Influencer Marketing even when digital marketing wasn’t a norm. With the leading Indian movie actor Shahrukh Khan as its brand ambassador, it reached out to each segment of the demographics while maintaining its luxury appeal.
- The airline, however, relied on OOH advertising to convey its USPs. Following its U.S. based counterparts; the Jet Airways removed a row in its Boeing 737-800 aircraft to facilitate comfortable seating for its customers. It used a 3D billboard to sell its idea and effectively communicate the concept to the target audience.



Market share in 2011





Jet Airways was a Successful venture in India

It had made a record of flying more than 2.3 million passengers in two years.
It was the first Southeast Asian airline to boast of a 737-800 in its fleet. Within a short span of five years of its commencement, it was flying twelve Boeing 737 aircraft to twenty-three domestic destinations daily for more than eighty-three times!

Soon, in 2001, it became the first buyer of Boeing 737-400 simulator and the leading Indian carrier to operate more than 195 flights to 37 Indian destinations.
However, the Indian aviation industry soon experienced a paradigm shift. The airline travel, which was considered to be a privilege of the upper-middle-class and high-class segment, was now finally within reach of the middle class. People who would travel in a local train or a bus could eventually make their dream of flying in an aeroplane a reality. Enter SpiceJet and Indigo, with their congested aircraft, seating for three with barely any leg space and sorry, no food on-the-go. If you want a better seat or have trouble with space or want an aisle seat, you need to shell out extra money that isn't included in the ticket.

When did Jet Faces its first Loss?

It shouldn't come as a surprise that after these two budget airlines commenced their operations, Jet faced losses for the first time that very few knew was going to be a trend for the airline and eventually turned to be a bleeding asset in the years to come. In 2002, the airline's deal for ten aircraft at Farnborough air show worth $520 billion fell through for lack of money.

It became evident that once the leading player in the Indian aviation industry couldn't keep up its ambition, for, it failed to read the pulse of India's fastest-growing segment. Following the Government of India's extension on foreign ownership limit to forty-nine per cent, Etihad bought a forty-nine per cent stake in Jet. In contrast, Goyal retained fifty-one per cent of it saving it from falling when it was cash-strapped. Jet also launched an IPO in 2005 and raised some interest leading to institutional, retail and non-institutional oversubscription. It raised approximately INR 19 billion, making the founder, Naresh Goyal, a billionaire on paper.

The fall and fall of Jet Airways

The Aviation Industry termed Jet's failure as a 'wake-up' call.

Apart from high costs, internal clashes and failing to take timely decision to revive its business were among the many reasons behind Jet Airways' failure. At times, when Indian customers would take a 36-hour train and not buy a ticket on a 2-hour plane, it didn't realise it is the money that matters for them and not the time or high-density seating with no space for legs. They don't care for the extra or hidden cost for something as essential as food or pay-for-your-luggage tags. With IndiGo and SpiceJet chipping away in its domestic share, it tried to switch places and to react to the competitive strategy of these low-cost carriers. But it failed to realise that the fleets of IndiGo, GoAir or SpiceJet are designed for low price whereas Jet had always been envisioned as a full-flight service with excellent service. In trying to beat the new competitor, Jet moved away from a model it was designed for. Clearly, it could not sustain this new model with its established cost structure and landed up in severe profitability issues. Jet eventually reverted to its original model, but too late in the day. The consistency in brand value was gone, and it was substituted by the reaction to the market share. It left the customers confused and leaving the Jet's customer base for good. Let's take a look at the issue point wise.

1) For the period October to December 2018, the last available financial results of the airline, the total income of the airline stood at Rs 6,198.38 crore. Against this, the expenditure of the airline stood at Rs 6,418.87 crore. The interest cost on the debt of the airline, during this period had stood at Rs 220.49 crore. As a proportion of total expenditure of the airline, the total interest cost was 4 percent. Yes, just 4 percent. Nearly 96 percent of the expenditure happened on other things.

2) And this was not a one-time thing. Take a look at Figure 1, which basically plots interest expense as a percentage of expenditure for the airline over a period of 15 years.

Figure 1:

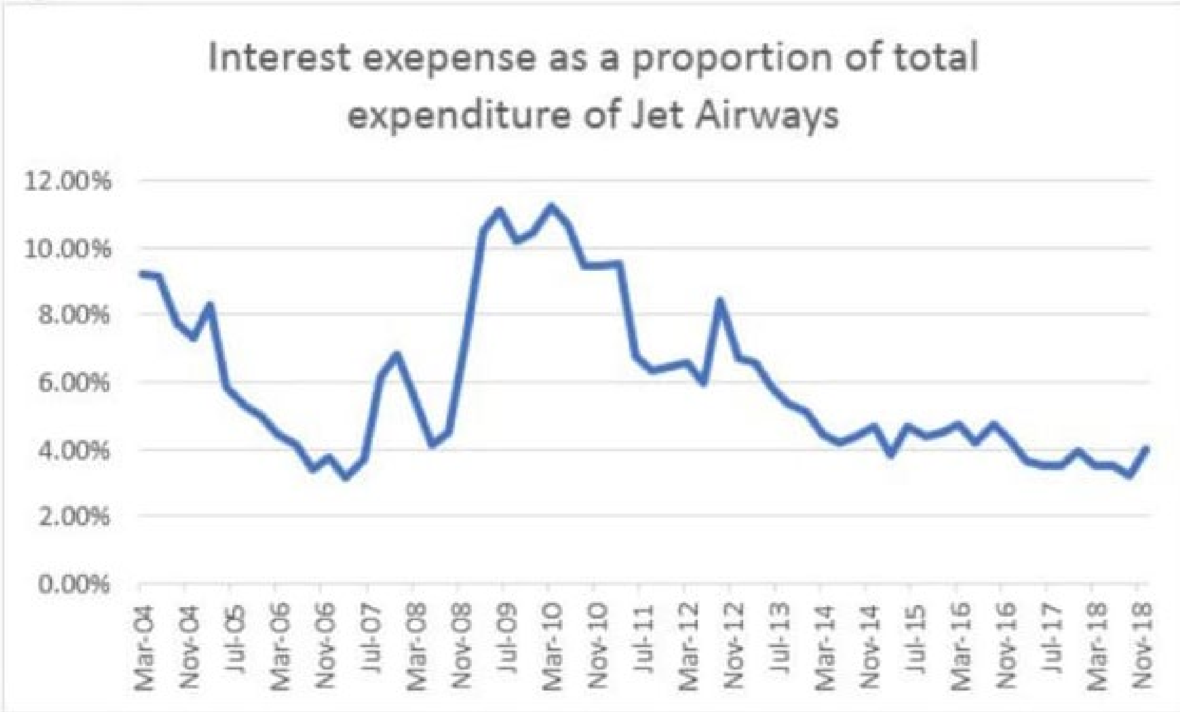


Figure 1 makes for a very interesting reading. In the last five years, the interest on debt as a percentage of total expenditure was around 4.1 percent.

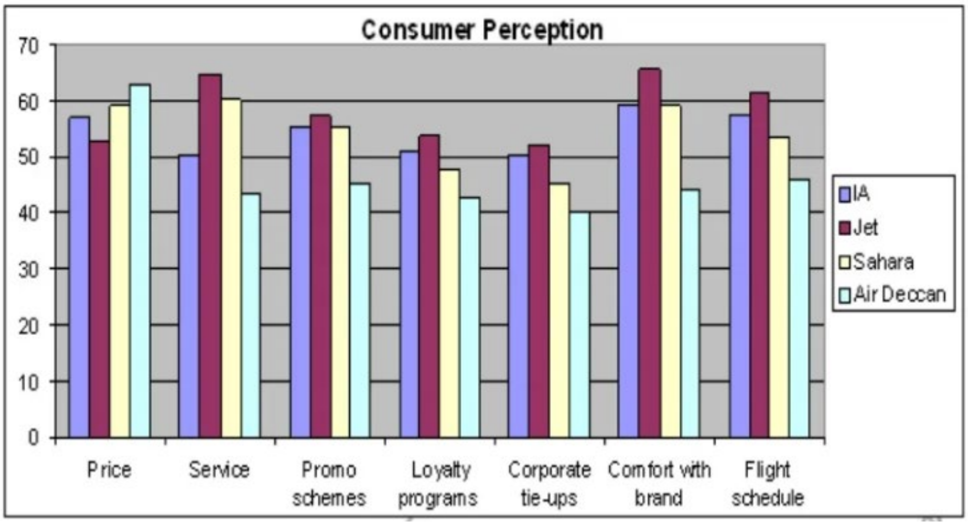
3) What does this tell us? It basically tells us that the interest expense and the total debt of the airline was basically the straw that broke the camel's back. The basic problem lay somewhere else. The overall expenditure of Jet Airways was simply too high, given the total income of the airline. A basic problem with the business model. It just wasn't making enough money to be a viable business, to justify all the money already invested in the airline.

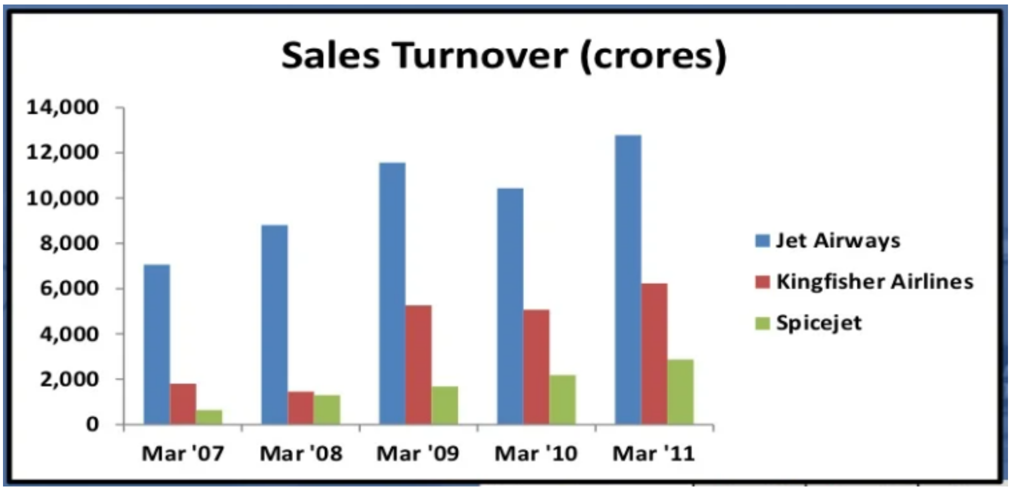
It also tells us that when it comes to airlines, India is a very price-sensitive market and people keep flying, only if tickets are available at a reasonable price. The way to increase revenue is to fly newer routes. But that needs newer aircraft (even if they are leased) and it means higher expenditure.

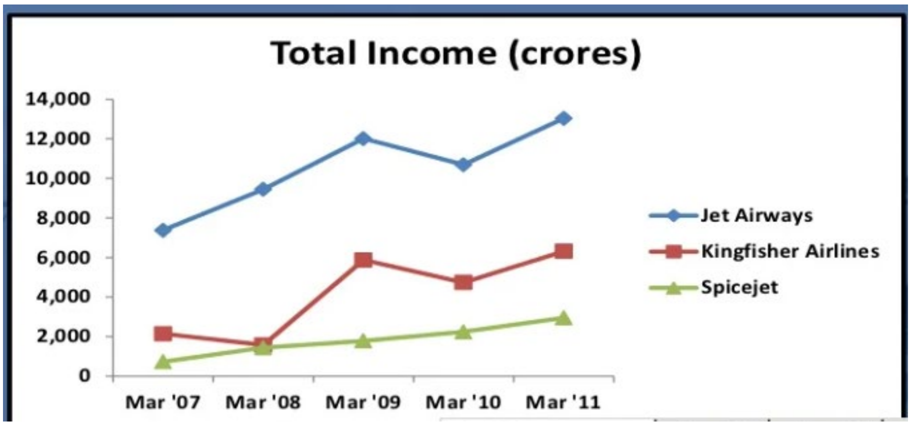
The expenditure had increased to Rs 6,418.87 crore, a jump of 841 percent. The expenditure of the airline over a period of 15 years has been growing much faster than its income, which basically tells us that the airline does not have a durable business model (lack of competitive advantage that Buffett talks about). Or to put it simply, the airline did not benefit from economies of scale as the income went up, expenditure went up as well, at a faster rate.

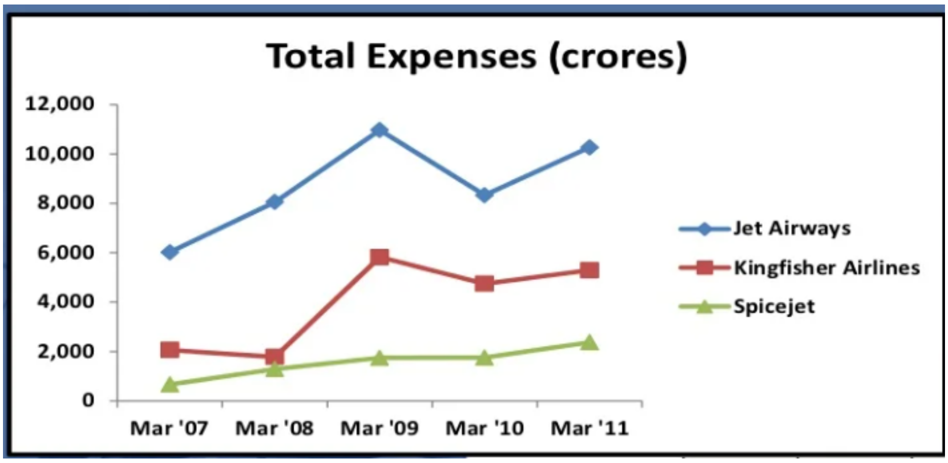
From 44 percent market share in 2004, Jet Airways ended 2018 with only a 15.5 percent market share. From a net profit margin of 4.5 percent in 2004, the losses started in 2008 and never ceased (the exception being 2017 and 2018 where the airline was helped due to extremely low fuel prices). Debt levels ballooned from Rs 2,631 crore in 2005 to Rs 14,280 crore in 2010 and Rs 8,500 crore in 2018. The net worth of the airline turned negative in 2012 and never recovered.

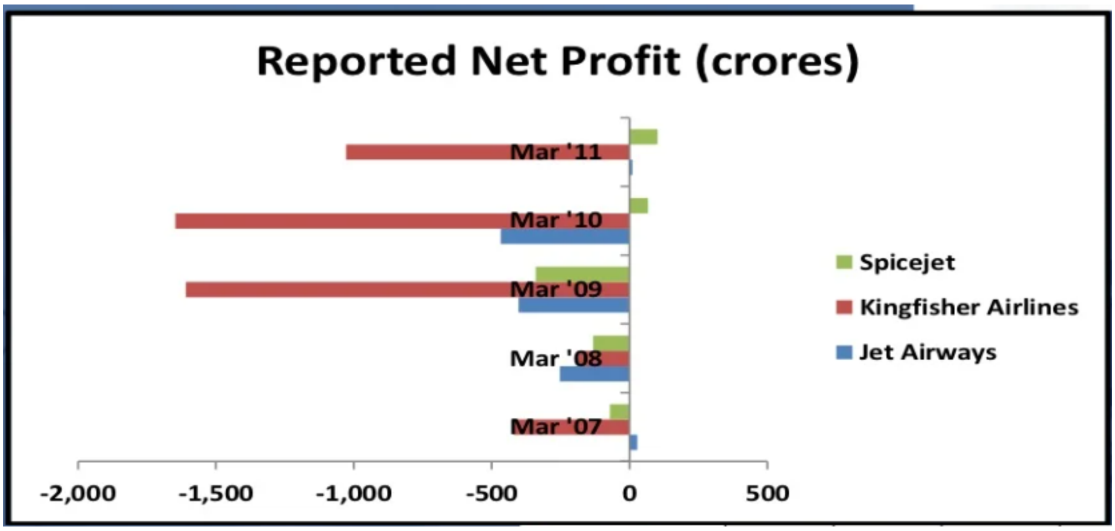
Jet Airways failed to recognise that the new business model was highly disruptive and the response required adjusting its own business model – not introducing new products.






Total Income (crores)
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
Mar '07
Mar '08
Mar '09
Mar '10
Mar '11
Jet Airways
Kingfisher Airlines
Spicejet


Total Expenses (crores)
12,000
10,000
8,000
6,000
4,000
2,000
0
Mar '07
Mar '08
Mar '09
Mar '10
Mar '11
Jet Airways
Kingfisher Airlines
Spicejet


Reported Net Profit (crores)
Mar '11
Mar '10
Mar '09
Mar '08
Mar '07
-2,000
-1,500
-1,000
-500
0
500
Spicejet
Kingfisher Airlines
Jet Airways

Factors for sustainable business model

A. Presence in domestic as well as international market

B. Presence in the FSC and LCC segment

C. Varied fleet size and type

D. Leasing out owned fleet to capitalize on the demand-supply Mismatch

A. Presence in domestic as well as international market

Ability to reshuffle part of its fleet across geographies: Its presence in the international and domestic markets has enabled the company to re-shuffle its fleet to international skies based on the seasonal demand and vice versa. The presence in the international segment has helped improve the block hours for the company as well improve revenues with a higher revenue per RPKM (yield) seen from the international business.

B. Presence in the FSC and LCC segment

JA is the best bet in the Indian aviation space, to capture the robust growth in the domestic passenger traffic due to its presence in both the LCC and FC segment. It caters to the lower end of the spectrum with its brands, Jet Konnect and Jetlite, and to the premium end with its own brand-name, Jet Airways.
This enables the company to provide a range of ticket prices and is able to cater to premium and economy travellers. The presence in the LCC segment allows it to capture the relatively strong growth in the domestic skies and also leads to improvement in blended load factors. On the other hand the FSC segment has helped Jet maintain its yields.

C. Varied fleet size and type

Jet Airways (standalone) currently has a fleet of 100 aircraft. Its fleet also comprises of 19 aircraft under its fully owned subsidiary Jet Lite. Moreover, a varied fleet size helps to accommodate demand across sectors. This has led to JA being able to constantly maintain and improve its load factors. The move has also led to better utilization of its fleet as per the needs of the sector and the cyclical and seasonal demand JET AIRWAYS

D. Leasing out owned fleet to capitalize on the demand-supply mismatch

With a fleet mix of owned (42) and leased (58) aircraft Jet is able to capitalise on the demand supply mismatch and earn additional revenues. Such flexibility gives Jet a strong competitive advantage in terms of its ability to withstand a downturn in the economy and also makes it best placed to capture a growth opportunity during times of revival or during festive seasons. Due to presence of owned fleet the company was able to reduce the downturn effect with revenues straight away positively impacting the EBITDA. This feature of Jet Airways considered to be one of its strongest edges over competitors and make it best poised in times of industry slowdown.

Key Risks

Fuel costs beyond airlines' control Aviation turbine fuel, (ATF) prices account for 40-45% of an airline's total revenues. A sharp increase in the ATF prices have dented margins and led to losses across the industry. Any further price rise could result in a significant net loss and hence erosion of net worth for the company.

SWOT Analysis

STRENGTHS: Strong presence & good name in the Indian Aviation market
WEAKNESSES: Too many players in the "no frill" category
OPPORTUNITIES: Consolidations in the industry & low market penetration
THREATS: Ongoing economic weakness & Fuel prices

Airline Business Models

As with any business, the main thing to consider when looking at airline business and airline management are the most used airline business models. The business model, in general, determines the way one intends to make money with the airline. There are various possibilities and the ones outlined below only show a generic and most common set of business models available.
There are really 5 main airline business. Of course, those airlines tend to add their own tweaks to each model in hope to get ahead of competition, but still – the framework remains within one of those 5.

- Legacy airlines (also known as Full-Service Network Carriers)
- Low-cost airlines (Low-Cost Carriers)
- Charter Airlines (Holiday Carriers)
- Regional Airlines
- Cargo Airlines
- Hybrid Airline

The most frequently used business models are Legacy, LCC and Hybrid…. Let’s study these three in detail for now

Legacy Airlines (Full-Service Operator)

A Legacy Airline is, at least in Europe, most often a former national airline which has been privatized to some extent over the years. Those airlines have generally a fairly large fleet, which is quite diversified as they are operating all sorts of routes, starting with long haul through medium range (short haul) and regional flights. Those airline business models have been around probably ever since airlines existed.

Legacy airlines have also the benefit of owning (at least a share) of relevant other aviation services such as handling companies at their hub airports, maintenance facilities, catering companies and the like. This may seem a benefit at first glance, but doesn’t always turned out to be one. I will write a bit more on why that is later.

Here are the main income drivers for legacy airlines:

- Good reputation, which provides for good business with corporate and governmental clients
- A broad set of connecting flights, allowing for long haul journeys from small airports on one ticket, with one airline
- Increased comfort through on-board meals, baggage charges which are included in the main fare and airport lounges for business and first class passengers
- Very diversified fares, starting with almost low cost “last minute” or “first minute” tariffs and ending with really expensive business class and first-class seats
- Convenient loyalty programs which offer reasonable rewards for travelling with a given airline (or, more frequently, with a given airline alliance)

In general, legacy airlines and similar airline business models can be thought of as reliable, having good customer service, predictable and fairly decent on board service and on board entertainment and leaving some benefits in the form of loyalty programs for frequent flyers.

Low-Cost Carriers

The idea of Low-Cost Carriers started in the United States, but it’s certainly experiencing a rapid development in Europe at present. I can’t think of a single

European who does not remember the advertisements of flights offered per 1 Euro before the legislation on advertising really kicked in on the LLCs. As the name suggests, Low-Cost Carriers are huge on reducing costs to the bare minimum and making people believe (rightfully, in most cases) that they are being offered the lowest fare possible on a given route.
As all Low-Cost Carriers need to comply with the airline regulations which apply to all airlines, regardless of airline business models used, they do not save money on things like maintenance. Therefore, they need to save on other things. The savings are generally based on passengers not getting expected benefits from their ticket, but having to pay for them instead.
Here's what will generally not be included in a standard airfare and charged extra from passengers who actually need the service:

- In-flight meals. There will be none served "for free" (meaning included in the airfare). Rather, many meals and drinks, including alcohol, are available for purchase during flight at prices significantly exceeding typical market value.
- Reserved seating. Low-cost airline business models generally assume what is called "free seating", which means that the first passenger in gets the best seat. This means savings on the reservation and boarding system as well as additional income, because many Low-Cost Carriers offer paid "priority boarding" which means that passengers who pay additional fees are allowed to board the aircraft before the other ones.
- No baggage (or very limited baggage) included in the airfare. This means that passengers generally need to pay additional fees to have their luggage transported with them.
- Additional charges for things such as payment by credit card online. These things often seem obvious to airline passengers, but they are charged additional fees in low-cost airline business models.

Hybrid Airlines

There are about as many hybrid airline business models as one could possibly imagine. Those include legacy airlines transporting cargo to their destinations, offering their own low-cost carriers or franchising out their regional routes to other airlines in order to achieve proper feeder traffic.

A hybrid airline is an unofficial term for an airline that operates with a low-cost business model but has a standard of service that is similar to what you would expect from standard and legacy carriers.

Hybrid airlines put emphasis on great service — often with tier-priced cabin classes and a number of different amenities — while keeping prices competitive within the market.

The term 'hybrid airline' is fairly new in aviation and is most commonly used to separate low-cost carriers with a low standard of service (ultra-low-cost carriers) from low-cost-carriers that offer a better standard of service (hybrid airlines).

The Comeback of Jet Airways

Jet Airways is set to resume operations from September after receiving the airline operating permit from the Directorate General of Civil Aviation (DGCA). Airline officials in the know have told Business Standard that it will restart operations with 20 aircraft and will only fly on domestic routes initially. All these aircraft will be brand new and will be leased from foreign lessors. None of the older planes leased or owned by Jet will be used as the airline – which suspended commercial operations on April 17, 2019, due to financial distress – takes to the skies again.

So which Business Model will Jet airways opt for?

Two Models, One Plane: India's Jet Airways Plans Unusual Hybrid Approach
The airline wants to mix full service and low-cost, all on the same plane.
In his first media appearance since taking the helm at the airline, Kapoor has shed some light on the operating model for the revived Jet Airways, and the roadmap to its restart of operations. Here's what we know so far.

A hybrid 'two-in-one' approach

The original Jet Airways was a full-service operator. In fact, until the launch of Vistara in 2015, it was the only full service operator in India apart from state-owned Air India. This meant passengers could expect free meals and drinks and a higher calibre of service onboard. One of the big questions regarding its restart is what the carrier will look like. According to the CEO's comments today, the airline plans to hedge its bets with a hybrid, two-in-one model catering to both ends of the market at once. Up front, Jet Airways will have a business class cabin, which will be full service. Passengers here can expect free meals and other perks of full-service travel – likely free checked baggage, seat selection and inflight amenities. But down the back, the economy class will be modelled on a low-cost basis, allowing the airline to bottom out the ticket prices to compete with its low-cost rivals.

Will it work?

Hybrid operating models have become popular in recent years providing something a bit better than low-cost carrier service, but still at an affordable price point. But what Kapoor is talking about is a whole new type of hybrid, where full service and low-cost exist on the same plane.

On the surface, it's an interesting idea but does it make any sense? The whole point of low-cost carriers is that everything is geared to reducing overheads; airports used are usually smaller, secondary facilities, turnarounds are short, and flight times are often at some of the more unsociable hours. Will full-service flyers be expected to endure these drawbacks? Or will the low-cost strategy be watered down to accommodate this hybrid offering? How it plays out remains to be seen, but whichever way it goes, one can't help wondering if Jet is setting itself up to fail.

Full-service passengers will likely prefer to fly with a fully full-service airline like Air India or Vistara. And with the watering down of the low-cost strategy, it's unlikely Jet will be able to compete on price against the slick, lightweight might of behemoths like SpiceJet and IndiGo.

The revival of Jet Airways will be celebrated by the many dedicated flyers for whom the airline was the carrier of choice in the past. However, it is entering an Indian aviation market that is drastically different from the one it departed. Due to burst onto the scene later this year is Akasa Air, adding more competition to the mix. And Air India's acquisition by the Tata Group could see increased pressure on the full-service side.

Do you think Jet 2.0 can thrive in the current market? It'll surely be a sight to see what happens next…

We appreciate your valuable time and attention. Thank you!