IIMB
Case Study - 1
Strategic Evaluation of Entry into the Airline Industry

1. Background and Context

The business group under consideration is a large, diversified conglomerate with successful operations across automotive, farm equipment, agri-business, defence, IT, leisure, hospitality, real estate, and related sectors. The group enjoys a strong cash position and operational stability.

The chairman is contemplating entry into the **domestic airline industry**, and the proposal is being evaluated by key stakeholders including the CFO, independent director, CEO of hospitality, Chief Strategy Officer, and Group Head of IT.

The core strategic question is **not merely whether to enter airlines**, but **whether airlines can create incremental strategic value for the group's existing ecosystem**.

2. Core Problem Identification

The primary constraint faced by the group's tourism and hospitality businesses is:

> **Inadequate connectivity to tourist circuits, particularly Tier-2 and non-metro destinations, leading to poor customer experience and lost revenue opportunities during peak seasons.**

This lack of direct connectivity:

- Increases travel friction for customers
- Reduces accessibility to group-owned tourist destinations
- Exacerbates congestion and service failures during peak demand periods

The problem is **structural**, not cyclical, and cannot be fully resolved through road or rail infrastructure alone, despite improvements in highway networks.

3. Strategic Rationale for Considering Airlines

The airline opportunity arises **not as a standalone aviation play**, but as a **connectivity solution** to strengthen the group's leisure and hospitality ecosystem.

Key strategic insight:

> **Connectivity is a demand-shaping lever for tourism, not merely a transportation service.**

By controlling connectivity, the group can influence:

- Destination choice
- Travel timing
- Length of stay
- Group travel behaviour

4. Proposed Strategic Option

Destination-Focused Domestic Airline

The recommended strategic option is to:

> **Establish a destination-focused domestic airline primarily serving Tier-2 tourist circuits to support the group's tourism and hospitality businesses through integrated travel packages.**

Key Characteristics:

- Focus on **tourist destinations**, not metro-to-metro routes
- Avoid direct competition with large incumbents (IndiGo, Vistara, etc.)
- Prioritise **leisure and group travel** over business travel
- Use airlines as an **enabler**, not as an independent growth engine

5. Value Creation Logic

5.1 Customer Value

- Seamless end-to-end travel (air + stay + experiences)
- Reduced planning complexity
- Improved reliability during peak seasons
- Time savings through direct connectivity

5.2 Group-Level Value

- Higher utilisation of hospitality assets
- Better management of seasonal demand spikes
- Increased cross-business customer lifetime value
- Strengthened leisure-travel brand positioning

6. Pricing and Bundling Strategy

Affordable packages are positioned as:

> **An acquisition lever to accelerate adoption in group-led leisure travel, not a permanent pricing commitment.**

- Initial discounts are used to drive trial and customer onboarding
- Pricing power improves as direct connectivity reduces dependence on substitutes
- Customers value **time and convenience over airline brand**, reducing price sensitivity
- Group bookings (destination weddings, pilgrimages, events) enable better demand predictability

7. Regulatory and External Factors Analysis

7.1 Taxation

- Aviation fuel (ATF) taxes remain a major cost risk
- Mitigation through:
  - State-level negotiations for tax concessions
  - Operations under regional connectivity/UDAN-like frameworks
  - Limited exposure due to focused route network

7.2 Traffic Laws and Regulatory Compliance

- Full compliance with DGCA norms and aviation safety regulations
- Operational simplicity due to:
  - Limited route complexity
  - Domestic-only focus
  - Standardised fleet operations

7.3 Airport Access

- Primary focus on:
  - Underutilised regional airports
  - Tier-2 and tourist-focused airstrips
- Benefits include:
  - Lower landing and parking fees
  - Reduced congestion
  - Government incentives for regional connectivity

7.4 Fuel Price Volatility

Fuel price risk is acknowledged as unavoidable.

Mitigation measures:

- Seasonal route planning
- Flexible frequency management

- Bundled pricing across hospitality and tourism
- Group-level evaluation rather than airline-only profitability

8. Role of IT and Data Capabilities

The group’s proprietary IT and data platforms enable:

- Demand forecasting for seasonal routes
- Dynamic packaging of flights, hotels, and experiences
- Targeted pricing for group travel
- Load factor optimisation through bundled demand

This capability provides a **non-replicable advantage** over standalone airlines.

9. Risk Assessment

Key Risks:

- Seasonality-driven demand fluctuations
- Capital intensity of aviation
- Fuel price shocks
- Regulatory changes.

Risk Mitigation:

- Narrow strategic scope
- Controlled fleet size
- Group-level performance evaluation
- Exit or scale-down triggers based on predefined metrics

10. Strategic Risk of Inaction

If the group does **not** enter airlines:

- Competitors may integrate travel, hospitality, and connectivity
- The group risks losing leadership in the leisure-travel ecosystem
- Tourism assets remain constrained by external airline networks

11. Final Strategic Conclusion

> **The airline should not be evaluated as a standalone aviation business, but as a strategic enabler that increases value across the group's leisure and hospitality ecosystem by solving the connectivity gap.**

A destination-focused airline, executed with discipline and bounded scope, aligns with the group's long-term strategy, leverages existing strengths, and mitigates the traditional pitfalls of the airline industry.