Problem Statement 2: Air India Growth Strategy

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To analyse this acquisition, we need to ask some basic questions :-

- The background and what was TATA looking for?
- What type of acquisition has happened here ?
- How do both parties hope to fare in this acquisition?

JRD Tata, then chairman of Tata Group, on the 30th anniversary day of the inaugural Karachi-Bombay flight (Express archive photo)

To answer our questions, first we need to take a peek into History.

Air India, before its nationalization, used to be known as Tata Airlines having been founded by former chairman of Tata Group, JRD Tata in 1932.

Air India's nationalization in 1953 meant that it's monopoly over Indian skies was absolute according to the Air Corporations Act, 1953 as private operations were not allowed to fly. That practice ended in 1994 when the Act was repealed and private airlines came into the picture.

But over the years, Air India accumulated mounting debt through the 90s and 2000s with government apathy, the merger with Indian Airlines and its patronage of politicians and parliamentarians often cited as reasons. Today, the airline is in third spot in terms of domestic market share behind IndiGo and Jet Airways.

So, we can see Air India's acquisition is like a prodigal son returning home. Tata is looking to re-acquire an important piece of its history with the belief that Air India could be returned to the same heights where it once was under chairmanship of JRD Tata - [Ratan Tata's tweet](#).

We now turn to the financial aspects of this acquisition.

- The Tata group paid Rs. 18000 crores for AI, out of which Rs 15,300 crores are in debt takeover and Rs 2,700 crores in cash.
- This is in addition to the salaries of the ~12000+ employees it will inherit.

Union Minister for Commerce & Industry Anand Sharma with Tata Group chairman Ratan Tata and Singapore Airline CEO Goh Choon at a meeting in New Delhi

Is it only thorns for the Tata group though?

1. Air India will give Tatas access to more than a hundred planes, thousands of trained pilots and crew, and lucrative landing and parking slots all around the world.
2. The airline will give Tatas successful control of 4,400 domestic and 1,800 international landing and parking slots at domestic airports.
3. It will also get 900 slots at airports overseas, the most lucrative of which are at London's Heathrow.

Acquisition of Air India does not mean Tata's have to build the expertise of operating an airline from scratch. They currently already operate Vistara and AirAsia India. The 3 airlines combined will hold 26.9% of Indian Market, and will be next only to Indigo.

एअर इंडिया AIR INDIA

A TATA SIA JV vistara Fly the new feeling

AirAsia

Moving on to the second question, how do we label this acquisition of Air India by TATA group?

Horizontal	Vertical	Conglomeration
Congeneric	Market Extension	Product Extension

- Tatas & Singapore Airlines agree to merge Vistara into Air India. Considering SIA and Vistara are direct competitors of AI in the international and domestic markets, it makes sense to consider it as a horizontal as well as congeneric merger.

- Tata Sons will hold 74.9% stake in the AI-Vistara-AI Express-AirAsia India Pvt Ltd (AAIPL) combined entity and SIA the remaining 25.1% stake. SIA will invest $250 million as soon as this integration is complete, valuing the new Air India at about $1 billion. This is an unparalleled opportunity for SIA to foray into the growing Indian Airlines Industry.

- However once the merger is complete, this will further solidify the conglomerate status of Tata Group which now includes Tata Steel, TCS, Jaguar, Air India, Taj Hotels and many more. All serving the market in their own way.

Behind every merger and acquisition, there are some common underlying points of interests and we shall explore in detail, what TATA group and Air India stand to gain :-

1. **Creation of cost synergies** – Tata had already been operating Vistara, so why go for a debt-laden airline. Adding AI's fleet to its own and the landing and parking slots over 6 continents would give Tata a reach unmatched by its current portfolio. Now Tata can divide maintenance, fuel costs, salaries etc. over a much wider fleet and consumer base.

2. **Inorganic Growth** – AI instead of competing against Vistara in domestic markets will now focus on growing simultaneously both at home and abroad.

3. **Stronger Market Share** – the inorganic growth both drives and derives from a stronger market share as now Air India will be the 2nd largest Airline in India, only behind Indigo.

4. **Tax Benefits** - Taking on a company's debt of over Rs. 15,300 crore will surely write off some taxes.

5. **Brand Value –** Air India will look to capitalise on Tata's reliable brand, while the Tata group can boast of having acquired the national carrier of India.

What TATA Group gets	What AIR INDIA gets
• Air India will give Tatas access to more than a hundred planes, thousands of trained pilots and crew, and lucrative landing and parking slots all around the world.	• A credible conglomerate capable of paying Air India’s 12,085 employees - 8,084 permanent and 4,001 on contractual basis.
• It will also get 900 slots at airports overseas, the most lucrative of which are at London's Heathrow.	• A tax write-off as AIAHL will hold Rs 46,262 crore remaining debt.
• The airline will give Tatas successful control of 4,400 domestic and 1,800 international landing and parking slots at domestic airports.	• A restructuring in management as Air India will once again be run competitively, and not for patronage of VIP’s.
• A fleet of 112 aircraft with 35 in orders, including 17 Boeing-777’s and 27 Boeing-787’s.	• A merger with powerful rivals in Vistara and AirAsia India, creating a powerful brand.

TATA

एअर इंडिया
AIR INDIA

Comprehensive strategies to improve the current scenario of the company will include improving the revenue and cost sides of running Air India :-

Cost Side :-

i. The management is to be allowed to run the company competitively and for profitability, without red tape
ii. Air India can identify non profitable routes and terminate services on those routes.
iii. Similarly, the services of aircrafts which are too expensive to maintain or run must be terminated.
iv. The airline has the dubious distinction of having the highest number of employees on its rolls per aircraft - its 221 employees per aircraft compared with 127 per plane at Lufthansa, 140 at Singapore Airlines and British Airways 178 employees per aircraft. This can be reduced leading to money saved in salaries.

Revenue Side :-

i. Air India needs to remarket itself, and it can take off the credibility that comes when associated with the Tata Group.
ii. Improvement of services and pricing the tickets competitively. Indigo has been able to capture half the Indian market based on these two factors.
iii. Indigo's success on the domestic routes has also been due to running multiple flights on the more profitable routes, spoiling their customers for choice.
iv. While Air India allows for higher baggage limit and free meals, this benefit is offset by higher ticket prices. If a balance is found, it can be a breakthrough attracting many more customers.

SWOT ANALYSIS

STRENGTHS	WEAKNESS
• A large fleet of 112 aircraft with 35 in orders. • 900 slots at airports overseas • Reputation as National carrier • An experienced workforce of 12000+ employees.	• A history of mismanagement • Debts of over Rs. 13000 crores to be recovered by Tata Group • A bloated workforce incurring high costs due to wages. • Not enough effort on marketing
OPPORTUNITIES	**THREATS**
• New brand credibility at home and abroad • Access to resources and markets of Vistara and AirAsia post merger. • Shaking off debts of over Rs. 46000 crores.	• Indigo still holds 58% of Indian Domestic market. • Rising fuel prices and loss of profitable routes to war in Ukraine and Middle East. • Faster trains and better roads in the domestic market reducing passengers.

एअर इंडिया
AIR INDIA

MARKET RESEARCH – AVIATION INDUSTRY

PORTER'S 5 FORCES	Market conditions (Strong/weak)
1.Bargaining power of Buyers	Our customers have many options, among them being other airlines and other modes of transport. [strong]
2. Bargaining power of suppliers	Boeing planes and Airbus planes all run on the engines made by Rolls-Royce or General Electric. Suppliers can easily sabotage/hinder operations owing to lack of options. [strong]
3. Threat of new entrants	Every few months a new airline enters into the fray while another has been bankrupted, e.g. Air Italy liquidated, AirAsia relatively new [strong]
4. Threat of substitutes	Super-fast trains, expressways, other airlines all pose a threat. This is a market where not everyone can afford tickets and would prefer cheaper modes of transport. [strong]
5. Established Rivalry among competitors	Air India already competing with Indigo and SpiceJet at home and Lufthansa and Qatar Airways for abroad flights. [strong]

- *We see that all of Porter's forces are strong in the aviation market, making this a very hostile market, and yet the charm of operating an airline keeps luring businesses into this cut-throat industry.*

Competitor Analysis

- Analysing what our competitors are doing well and how they make profit will provide us with good insight as to how to proceed.

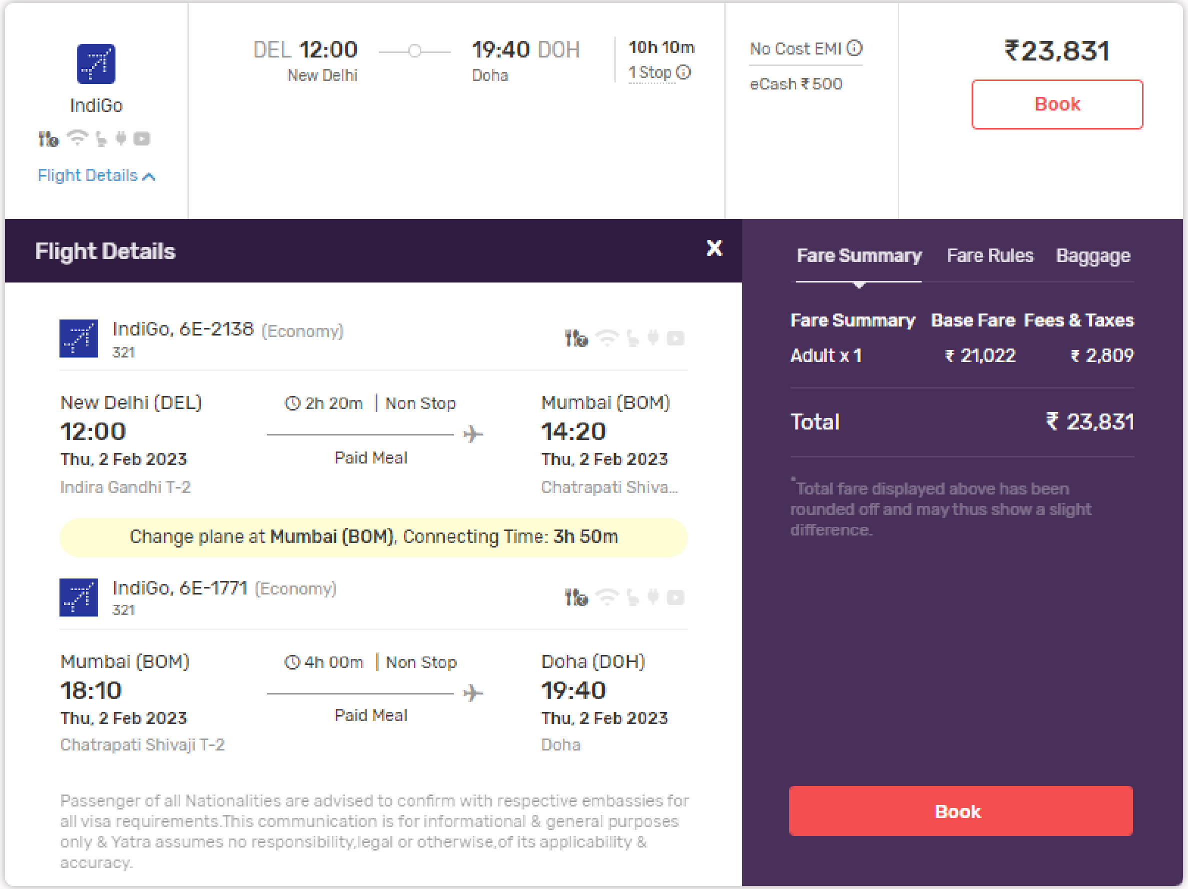
➢ Our biggest rival is **Indigo** with >50% share of Indian market.

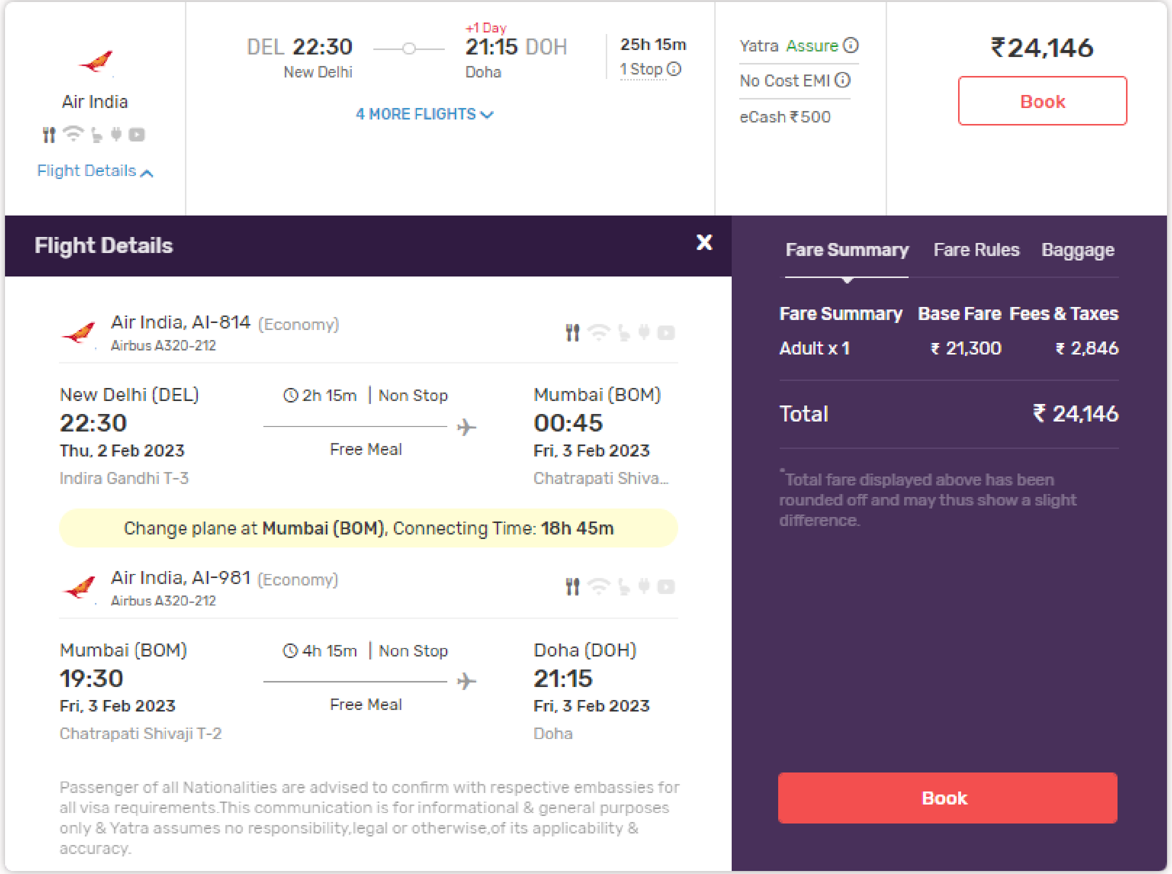
- they offer lower ticket prices as compared to AI, while making up the costs by charging for meals and limiting luggage weight to 15 kg.
- The first thing customers look at is price, and it looks like a big reason for customer attraction.
- Indigo has successfully identified profitable routes and runs multiple flights on these routes, e.g. Delhi-Bengaluru, Delhi-Doha successfully building brand recognition and capturing customer base. (we take a brief look at their services on the next page)

➢ Most of our rivals that are doing well have a well timed network of interconnected flights, keeping waiting times low, where Air India has been failing for a long time.

➢ Air India employs 221 employees per aircraft compared with 127 per plane at Lufthansa, 140 at Singapore Airlines and British Airways 178 employees per aircraft. This is inefficiency which is increasing our operation costs.

➢ Air India can look to operate aircrafts with lower fuel consumption and modern engines reducing maintenance, e.g. phase out the old A-320s.

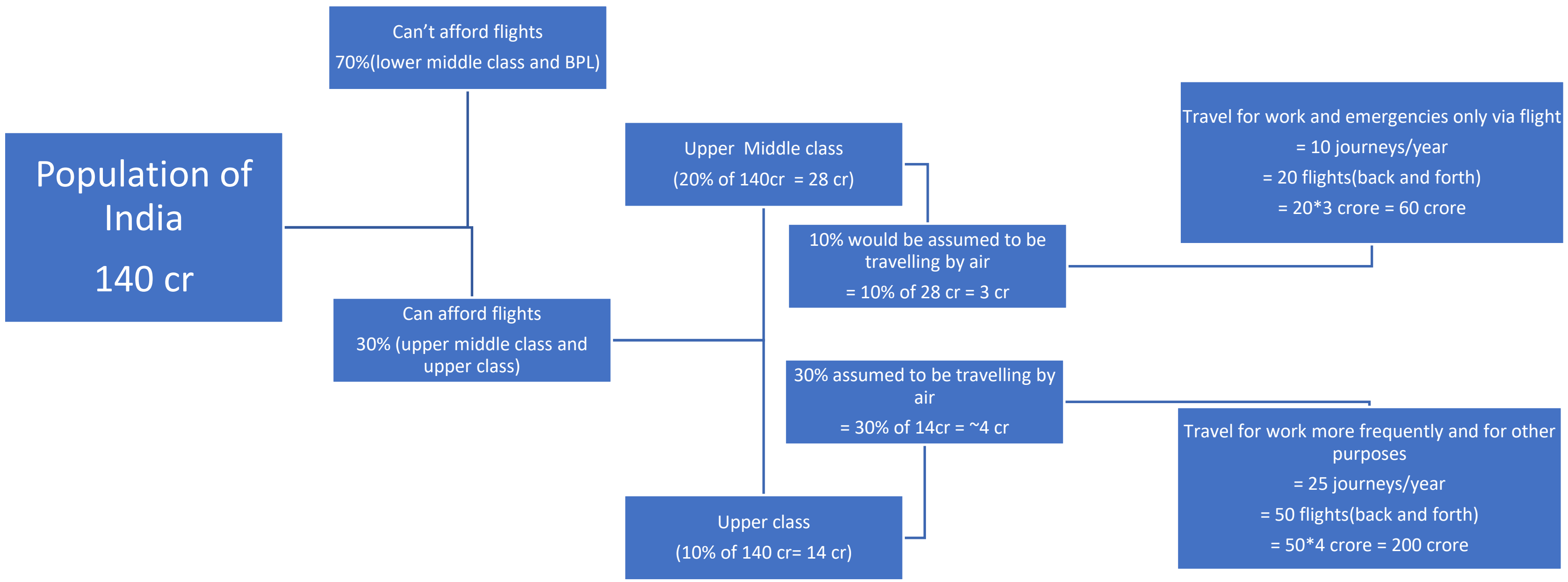




- Indigo runs a well timed network of flights keeping waiting times low and keeping flight time to 10 hrs.
- They charge for meals making up for difference in ticket price
- The cancellation fee is Rs. 6000 for 24+ hrs.

- AI has a huge waiting time (18 hrs) which puts off lots of customers, also travel time is 25 hrs.
- The meals are free here.
- The cancellation fees is only Rs.4000.

Finding our target audience



- Our target audience includes the working population which needs to travel quite often.
- Even those who travel for non-work purposes makes up a significant portion of our market.
- If we must chose, a particular section of the market to target, our focus must be the tech-savvy class, which are more susceptible to today's marketing methods.
- The majority of our customers today would prefer to interact online, and Google Analytics etc. can help us find the target areas.
- Also, majority of the traffic comes from tier-1 cities, e.g. Delhi, Mumbai, Bengaluru.

Decline of AIR INDIA

Costs

- Huge workforce, 12000+ ***
  - high salary costs
  - a large percent of them uncompetitive due to lack of accountability.
  - high bargaining power of staff leading to ability to bring operations to a full stop.
- Old aircrafts, asking for high maintenance.
- Increasing fuel prices
- Debt ridden finances, due to govt. apathy.

Revenue

- Incompetent ticket pricing
- Poor weight management on domestic flights.
- High competition both domestic and foreign.
- Unattractive wait times in between flights leading to loss of customers
  - mismanagement of slots on airports.

*****The huge workforce while being an asset is also a huge burden on the company's finance which needs to be trimmed.***

Growth Strategy framework

INORGANIC GROWTH	ORGANIC GROWTH
• **Partnerships** - retail chains like Starbucks, McDonalds that offer services at discounts on AI tickets. - with banks like SBI, Axis e.g. offer discounts on use of platinum cards - make use of ad services of Meta and Google Analytics to improve market reach to target audience • **Mergers** - Vistara and AirAsia have already been merged - Further plans can be made to acquire and merge smaller airlines that can provide access to smaller runways using smaller planes e.g. Go Air. • **Acquisitions** - Acquiring airlines like SpiceXpress and Blue Dart would allow Air India to foray into cargo business, paving way for further partnerships with companies like Delhivery etc.	• **Expansion and Improvement** - Air India can look to acquire food from Taj Hotels, another company within Tata Group for First class and business class passengers, thus increasing revenue. - Earn more via luxury travel, following example of Qatar Airways. - lower luggage limits to save fuel costs. • **New Opportunities** - look into the cargo business which can be helped by acquiring cargo planes (e.g. converted Boeing freighters) - Sponsor tickets to international events like FIFA WC, Cricket World Cup, NFL etc. via lottery specifically for marketing purposes and improve market outreach - Buying Dornier-228's and similar aircrafts would enable AI access to tier-2 and tier-3 airports which are currently untapped markets.

Performance Analysis after 1 year

- **Number of customers**

  - In January 2020, Air India flew 1.47 million passengers and had a market share of 11.6 percent, making it the No. 3 airline in the country. Cut to January 2022, the airline had a market share of 10.2 percent and it had moved a tad closer to the second spot even though it carried less than half the passengers it did two years ago. The market had shrunk.

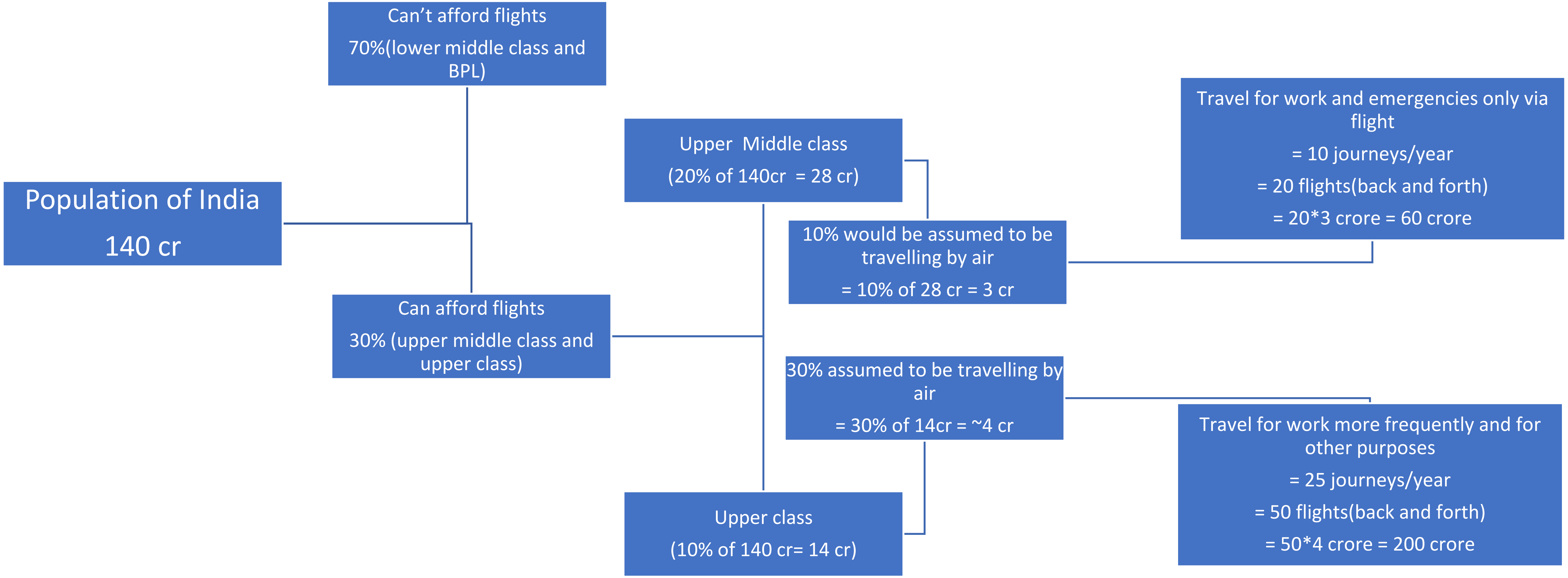
  -Air India made the least of the traffic growth from January to May. Domestic air traffic in India almost doubled during this period, going up to 11.4 million in May from 6.4 million in January. Air India, on the other hand, moved from 655,809 passengers in January to 826,023 in April and 822,814 in May.

- **Revenue Generated**

  - Air India's revenue rose 64% in fiscal 2022, but its net loss swelled by a third, showed latest regulatory filings by the airline

  - The airline posted net revenue of Rs19,815.9 crore during the year to March 31, 2022, on a standalone basis, with a net loss of Rs 9,556.5 crore.

Guesstimate of the number of passengers travelling per day on Air India's flights within India



We come to a roundabout of 260 crore passengers/year

⇒ 260/365 crore/day = ~0.7 cr passengers/day

⇒ Assuming Air India has 10% market share

= 0.1*0.7 cr = 0.07 crore passengers travel via Air India/Day.

= 7 lakh passengers/day aboard Air India.

Appendix

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