

Strategic Market Entry Plan for a European Airline in India

Background

Your client is a European low-cost airline operating across most European countries. Facing stagnant growth in Europe, they are considering entry into the rapidly growing Indian market, focusing on long-term growth over immediate profits. The Indian domestic airline market, dominated by five to six major players (with Indigo holding the largest market share), is expanding at a rate of 20% per year. The client plans to target major cities for their initial operations.

Client Objectives

- As one of the big brands in Europe, the client wants to focus on revenue growth through the Indian market.
- The client is open to entering different sectors within the airline market.
- The client is seeking suggestions on how to position and price their product in the Indian market.

Deliverables

You will conduct a comprehensive analysis of the Indian airline market, including market size, share, and potential revenue, to evaluate whether it aligns with the client's growth objectives. This includes estimating annual revenue and assessing growth prospects in the Indian market. Additionally, you'll perform an operational feasibility study, exploring market entry strategies such as independent entry, joint ventures, or mergers and acquisitions (M&A). The evaluation criteria for these strategies should include cost, control, and time to market. Moreover, you'll analyze Indian consumer preferences and the competitive landscape to recommend positioning strategies that align with the client's brand as a low-cost airline. Finally, you will propose competitive pricing models tailored to India's price-sensitive market, benchmarking against existing low-cost carriers.

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Market Analysis of the Indian Aviation Sector

The civil aviation industry in India has emerged as one of the fastest growing industries in the country during the last three years and can be broadly classified into scheduled air transport service which includes domestic and international airlines, non-scheduled air transport service which consists of charter operators and air taxi operators, air cargo service, which includes air transportation of cargo and mail. Domestic traffic contributes around 69% of the total airline traffic in South Asia and India's airport capacity is expected to handle 1 billion trips annually by 2023. The Indian aviation industry has recovered fully from the covid-19 pandemic shock as indicated by the air traffic movement which stood at 327.28 million in FY23 compared to 188.89 million in FY22. The India Aviation Market size is estimated at 13.89 billion USD in 2024 and is expected to reach 26.08 billion USD by 2030, growing at a CAGR of 11.08% during the forecast period (2024-2030).

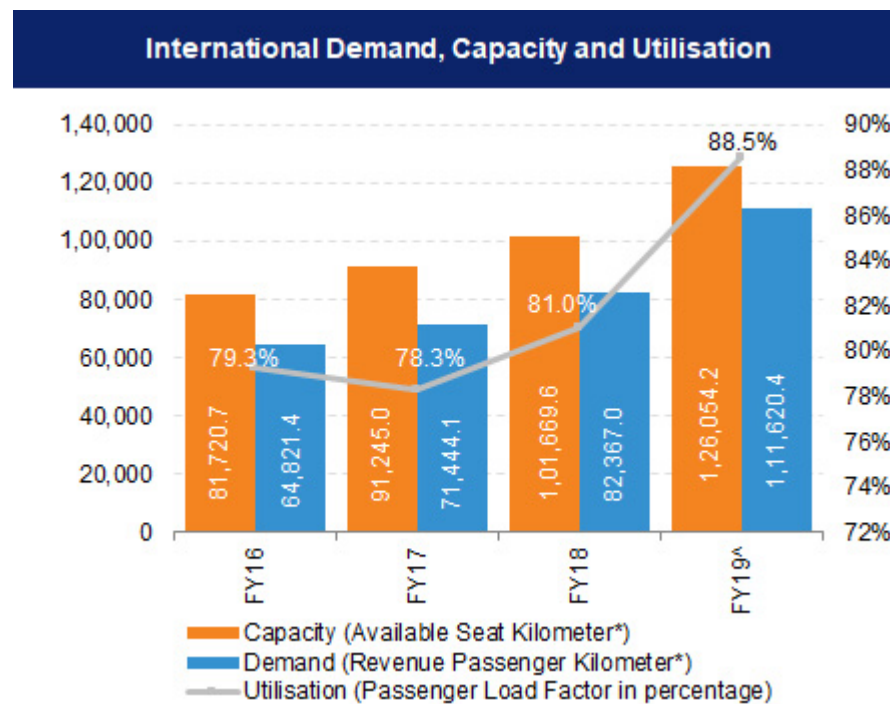
India is expected to overtake China and the United States as the world's third-largest air passenger market in the next ten years, by 2030, according to the International Air Transport Association (IATA). Further, the rising demand in the sector has pushed the number of airplanes operating in the sector. The number of airplanes is expected to reach 1,100 planes by 2027.

During April-January 2024, the domestic passenger traffic stood at 254.44 million, registering a 15.3% increase, and international passenger traffic stood at 57.57 million, a 23.5% increase, as compared to the same period the previous year.

In FY23, airports in India pegged the domestic passenger traffic to reach 270.34 million, a 62.1% YoY increase, and international passenger traffic to reach 56.9 million, a 157% YoY increase, as compared to FY22.

Between FY16 and FY23, freight traffic increased at a CAGR of 2.20% from 2.70 MMT to 3.15 MMT. Freight traffic stood at 3.15 million metric tonnes in FY23. Freight traffic in airports in India has the potential to reach 17 MT by FY40. In FY22, the number of

aircraft movements stood at 1,757,112, and aircraft movements reached 2.5 million in FY23. To cater to the rising air traffic, the Government of India has been working towards increasing the number of airports. As of 2023, India has 148 operational airports. India has envisaged increasing the number of operational airports to 220 by 2025.



SEGMENTS OF THE INDIAN AVIATION SECTOR

- The commercial aviation segment is the largest in terms of aircraft delivered in the country. India has become the third-largest domestic aviation market in the world and is expected to overtake the UK to become the third-largest air passenger market by 2024. Indian aviation also contributed 5% of the GDP, creating a total of 4 million jobs. In addition, this industry has a USD 72 billion gross value-added contribution to GDP. Air traffic has been growing rapidly in the country as compared to the global average. The air fleet number is expected to rise from the present 600 to 1,200 during 2024.
- Followed by the commercial segment, the general aviation industry in India is considered a luxury for both business and private needs and strongly drives the country's economic growth. The surge of tourist traffic into India and the rising HNWIs have driven the growth of the country's general aviation sector. Despite these driving factors, challenges in ease of doing business, complications with the tax structures, inadequate infrastructure, and complicated processes to obtain operating licenses have resulted in subdued growth of the business aviation market in India.
- Furthermore, India is a critical military aircraft market, as the country has been modernizing its aerial capabilities by procuring new aircraft and indigenously developing military aircraft to defend its borders from Pakistan and China. HAL is the largest manufacturer of aircraft and helicopters in India and has been producing BAE Hawk Trainers and Tejas LCA. It is also developing fifth-generation advanced medium combat aircraft under the Make in India initiative, with deliveries expected to start during the forecast period.

PESTEL ANALYSIS

Political Factors:

1. **Government Policies:** The Indian government has been promoting the aviation sector through various initiatives like the National Civil Aviation Policy (NCAP) 2016, which aims to make flying affordable and convenient. The UDAN (Ude Desh ka Aam Nagrik) scheme is another significant effort to improve regional connectivity.
2. **Regulatory Environment:** The Directorate General of Civil Aviation (DGCA) oversees aviation safety, and its regulations significantly impact airline operations. Compliance with these regulations can be both a challenge and a safeguard for the industry.
3. **Bilateral Agreements:** India has several bilateral air service agreements with other countries, affecting international flight operations and route expansions.

Economic Factors:

1. **Economic Growth:** India's economic growth influences the aviation sector as increased disposable incomes lead to higher travel demand. The growing middle class is a significant driver of domestic air travel.

2. **Fuel Prices**: Aviation turbine fuel (ATF) prices are a major cost component for airlines. Fluctuations in global oil prices can impact profitability.
3. **Exchange Rates**: The aviation industry is sensitive to exchange rate fluctuations, especially since many expenses, such as leasing aircraft and buying fuel, are denominated in US dollars.

Social Factors:

1. **Demographics**: India's young population and increasing urbanization contribute to the growth of air travel. The desire for quick and efficient travel among the younger demographic is a key driver.
2. **Travel Trends**: Increasing business travel and leisure tourism are boosting demand. The rise of budget airlines has made air travel accessible to a larger portion of the population.
3. **Health and Safety Concerns**: Post-pandemic, there is heightened awareness and demand for safety and hygiene measures during air travel.

Technological Factors:

1. **Advancements in Aircraft Technology**: Newer, more fuel-efficient aircraft are being introduced, which can reduce operating costs and environmental impact.
2. **Digitalization**: The adoption of digital technologies such as online booking platforms, automated check-in, and baggage handling systems improves customer experience and operational efficiency.
3. **Innovation in Customer Service**: Use of AI and big data analytics for personalized services, predictive maintenance, and efficient fleet management.

Environmental Factors:

1. **Environmental Regulations:** Compliance with environmental regulations related to emissions and noise pollution is critical. The International Civil Aviation Organization (ICAO) has set targets for carbon reduction, which airlines need to adhere to.
2. **Sustainable Practices:** There is a growing emphasis on adopting sustainable practices, such as using biofuels, reducing single-use plastics, and improving waste management in airports.
3. **Climate Change:** Weather patterns and climate change can impact flight operations, leading to delays and cancellations.

Legal Factors:

1. **Aviation Laws and Regulations:** Compliance with domestic and international aviation laws is mandatory. This includes safety regulations, labor laws, and passenger rights.
2. **Intellectual Property:** Protecting technological innovations and software used in aviation operations is essential.
3. **Consumer Protection Laws:** Regulations protecting passengers' rights, such as compensation for delays and cancellations, impact airline operations and profitability.

GOVERNMENT INITIATIVES

- In the **Union Budget 2023-24**:
 - Rs. 3,224.67 crore (US\$ 440.36 million) was allocated to the Ministry of Civil Aviation.
 - Government to revive 50 aircraft landing sites comprising airports, heliports, water aerodromes, and advanced landing grounds to improve regional air connectivity.
 - In the budget 2022-23, the RCS (Regional Connectivity Scheme) **UDAN** scheme which aims to stimulate regional air connectivity was allocated Rs. 601 crore (US\$ 77.52 million).
- The Directorate General of Civil Aviation (DGCA) has granted in-principle approval to Air India Ltd. and Interglobe Aviation Ltd (Indigo) for the import of 470 and 500 aircraft respectively. As per the induction plan of the airlines, the aircraft is proposed to be imported during the period 2023-2035.
- **UDAN** scheme fosters regional connectivity with 519 operational routes, encompassing 53 tourism and 48 helicopter routes, benefiting 133.86 lakh passengers. Over 2.56 lakh flights have operated, involving 13 airlines, including startups, shaping a transformative impact on regional growth and air connectivity.
- **NABH (NextGen Airports for Bharat)** - Nirman is a government initiative to expand airport capacity more than five times to handle billions of trips a year, in the next 10-15 years.
- The Government has informed that India will spend US\$ 11.88 billion by 2025 to boost regional connectivity by constructing airports and modernising existing ones.

- In 2023, the government has accorded **'In-Principle'** approval for setting up 21 Greenfield Airports across the country. Out of these, 11 Greenfield airports have been operationalised.
- **AAI Startup Policy:** Delivering a framework & mechanism for the interaction of AAI with internal and external stakeholders that catalyze innovation at airports and leveraging technology for addressing challenges and enhancing the delivery of services to passengers.

COMPETITOR ANALYSIS

Major Players:

● **IndiGo**

- **Market Position:** IndiGo is the largest airline in India by market share.
- **Business Model:** Low-cost carrier (LCC).
- **Strengths:**
 - Extensive domestic network.
 - Cost efficiency and operational reliability.
 - Strong brand recognition.
- **Weaknesses:**
 - High dependence on the domestic market.
 - Limited international presence compared to some competitors.
- **Recent Developments:**
 - Expansion of international routes.
 - Fleet expansion and modernization.

● **Air India**

- **Market Position:** National carrier with a significant presence in international markets.
- **Business Model:** Full-service carrier (FSC).
- **Strengths:**
 - Extensive international network.
 - Government support and funding.
 - Strong brand legacy.
- **Weaknesses:**
 - Financial instability and high debt.
 - Operational inefficiencies.
- **Recent Developments:**
 - Privatization and acquisition by Tata Group.
 - Fleet modernization plans.

● **SpiceJet**

- **Market Position:** One of the leading low-cost carriers in India.
- **Business Model:** Low-cost carrier (LCC).
- **Strengths:**

- Strong domestic network.
 - Competitive pricing strategy.
- **Weaknesses:**
 - Financial challenges and operational disruptions.
 - Limited international network.
- **Recent Developments:**
 - Introduction of cargo services (SpiceXpress).
 - Expansion into new domestic and regional routes.
- **GoAir (Go First)**
 - **Market Position:** Established low-cost carrier.
 - **Business Model:** Low-cost carrier (LCC).
 - **Strengths:**
 - Strong focus on cost management.
 - Increasing market share in the domestic sector.
 - **Weaknesses:**
 - Limited international presence.
 - Financial and operational challenges.
 - **Recent Developments:**
 - Rebranding to Go First.
 - Plans for fleet expansion and international routes.
- **Vistara**
 - **Market Position:** Joint venture between Tata Sons and Singapore Airlines.
 - **Business Model:** Full-service carrier (FSC).
 - **Strengths:**
 - Strong backing from Tata Group and Singapore Airlines.
 - High service quality and customer satisfaction.
 - **Weaknesses:**
 - Smaller market share compared to major players.
 - High operational costs.
 - **Recent Developments:**
 - Expansion of international routes.
 - Fleet expansion with new aircraft orders.
- **AirAsia India**
 - **Market Position:** Joint venture between Tata Sons and AirAsia Berhad.
 - **Business Model:** Low-cost carrier (LCC).

- **Strengths:**
 - Strong brand recognition.
 - Efficient cost management.
- **Weaknesses:**
 - Limited market share.
 - Competitive pressure from other LCCs.
- **Recent Developments:**
 - Integration plans with Air India Express.
 - Expansion of domestic routes.

CHALLENGES AND LOOPHOLES

- **High Fuel Costs:**
 - Aircraft Turbine Fuel (ATF) expenses can represent **50-70% of an airline's operational costs** and import taxes add to the financial burden.
- **Dollar Dependency:**
 - Fluctuations in the **dollar rate impact profits as major expenses** like aircraft acquisition and maintenance are dollar-denominated.
- **Cutthroat Pricing:**
 - Airlines often engage in aggressive price competition to attract passengers, leading to thin profit margins amidst high operational costs.
- **Limited Competition:**
 - Currently, IndiGo and a resurgent Air India hold the majority share, possibly nearing 70% combined. This concentration of power can lead to:
 - **Limited Competition:** With fewer major players, there's a risk of reduced competition on routes, potentially leading to higher fares for consumers.
 - **Pricing Power:** The dominant airlines may have more leverage to influence ticket prices, especially if they coordinate strategies.
- **Grounded Fleet:**
 - A large portion (over a quarter) of Indian aeroplanes are grounded due to safety concerns and financial issues, hindering capacity.
- **Environmental Concerns:**
 - Pressure to reduce carbon emissions and adopt sustainable practices can add complexity to growth strategies.
- **Current lack of investment in human capital, particularly in pilot training.**

SCOPE AND OPPORTUNITIES

India's aviation industry is largely untapped with huge growth opportunities, considering that air transport is still expensive for the majority of the country's population, of which nearly 40% is the upwardly mobile middle class. The government has been instrumental in developing policies to give a boost to the aviation sector. For this, the UDAN-RCS scheme has been launched by the government which aims to increase air connectivity by providing affordable, economically viable, and profitable travel on regional routes. Following are **advantages** deduced from the above analysis:

- **ROBUST DEMAND:** Rising working group and widening middle-class demography is expected to boost demand. Also India is ranked **third** in the aviation market in terms of passengers.
- **HIGH GROWTH POTENTIAL:** India is one of the fastest-growing aviation markets globally, so Airlines can benefit from a large and expanding customer base, leading to increased revenue opportunities.
- **GOVERNMENT SUPPORT:** Airlines can access government subsidies and initiatives to reduce operational costs and expand their networks.
- **UNTAPPED MARKET POTENTIAL:** Airlines can capture untapped demand by expanding routes to tier-2 and tier-3 cities, reducing congestion at major hubs, and increasing market share.
- **INTERNATIONAL ROUTES:** Opportunities to introduce new international routes and increase frequencies on high-demand routes, catering to growing outbound travel and demand for direct international flights.

- **COST ADVANTAGES:** Reduced operational costs due to relatively lower labor costs in India compared to many other countries, enhancing profitability and allowing for competitive pricing strategies.
- **TOURISM GROWTH:** Steady demand for air travel from the tourism sector, providing a stable revenue stream.
- **BRAND DIFFERENTIATION:** Opportunity to differentiate through superior service quality, innovative offerings, and customer-centric strategies and building a strong, differentiated brand that attracts and retains customers.

MARKET ENTRY **STRATEGY**

Expanding in the Indian aviation market offers significant advantages, including high growth potential, government support, untapped market opportunities, cost efficiencies, and the ability to leverage technological advancements. By capitalizing on these advantages, airlines can achieve sustainable growth and profitability in one of the world's most dynamic aviation markets. Entering the Indian aviation market requires a strategic approach that combines local partnerships, regulatory compliance, targeted marketing, and operational efficiency.

JOINT VENTURE with the local carriers is the best-suited approach to achieve the best results. Also the initial investment will be relatively less compared to the other entry strategies (entering on its own and merger/acquisition of a local airline). Given that our European company is a low cost airline and wants to focus on revenue growth, the strategy with least investment and significant profit growths should be chosen. Once the airline is well established in the Indian Aviation Market, it can work through mergers and acquisitions of local airlines as it would then help them in expanding their reach and presence.

Advantages of a joint venture:

1. Market Access and Expertise

- **Local Market Knowledge**: Leverage the local carrier's understanding of customer preferences and regulatory landscape.
- **Established Brand Presence**: Benefit from the local carrier's brand recognition and customer loyalty.

2. Regulatory and Operational Benefits

- **Regulatory Compliance**: Ensure compliance with local regulations and reduce bureaucratic hurdles.

- Access to Slots and Infrastructure: Utilize the local carrier's established relationships for airport slots and infrastructure.

3. Cost and Risk Sharing

- Shared Investment and Risk: Reduce financial burden and risk through shared investment.
- Operational Synergies: Achieve cost savings through shared resources and economies of scale.

4. Enhanced Service Offering

- Expanded Network: Leverage both partners' route networks for more destinations.
- Improved Customer Experience: Provide seamless travel experiences with integrated services.

5. Strategic Flexibility

- Adaptive Strategies: Quickly adjust business strategies based on market changes.
- Diverse Market Segments: Tailor products and services to diverse customer segments.

6. Sustainability and Long-term Growth

- Sustainable Practices: Adopt sustainable practices tailored to the local context.
- Long-term Growth: Build a stable and scalable business model for future growth.

OPERATION FEASIBILITY OF MARKET ENTRY STRATEGY

FEASIBILITY ANALYSIS:

Strengths

Gain the opportunity to enter a robust and expanding aviation market characterized by a high and continuously growing demand for passenger travel. By partnering with the local carrier, can leverage their extensive market knowledge, well-established brand presence, and in-depth understanding of regulatory frameworks. This collaboration also allows for shared investment and risk, leading to a reduced financial burden and increased overall stability. Potential for operational synergies and cost savings.

Weaknesses

The challenges in aligning operational practices and corporate cultures between partners can be complex due to the differing methodologies and structures in place. Additionally, encountering regulatory hurdles and potential delays in obtaining necessary approvals can pose significant obstacles to progress. Furthermore, the high initial investment required for fleet acquisition, infrastructure development, and marketing activities is a substantial financial commitment that needs careful consideration and planning..

Opportunities

Expanding into underserved tier-2 and tier-3 cities involves identifying specific locations with growing

populations and economic potential. This expansion strategy aims to capture untapped demand by offering services and products tailored to the needs of these communities. It includes market research, infrastructure development, and engagement with local airlines can ensure a successful and sustainable presence in these areas.

The introduction of new international routes to meet growing outbound travel demand requires a comprehensive analysis of emerging travel trends, popular destinations, and customer preferences. This process involves collaborating with aviation authorities, conducting market feasibility studies, and the European airline would be able to contribute in international routes and tourism bringing in the external factor for expansion of Indian aviation.

Adopting digital technologies to enhance customer experience and operational efficiency encompasses a wide range of initiatives, such as implementing user-friendly mobile apps, deploying automated check-in and boarding systems, and leveraging data analytics to personalize services. This digital transformation strategy seeks to streamline internal processes, improve decision-making, and provide customers with seamless and responsive interactions across various touchpoints.

Implementation of sustainable practices to align with global environmental goals involves integrating eco-friendly initiatives into the company's operations, infrastructure, and supply chain. This includes reducing carbon emissions, minimizing waste, promoting energy efficiency, and supporting conservation efforts. It also

entails engaging with industry stakeholders, complying with environmental regulations, and promoting environmental stewardship among employees and customers.

Threats

The market is experiencing intense competition from existing players, both domestic and international, which has led to pricing pressures and increased marketing efforts to attract and retain customers. The economic volatility is impacting passenger demand, leading to fluctuating travel patterns and affecting operational costs, such as fuel expenses and maintenance. Additionally, regulatory changes are being closely monitored as they may impact the operational feasibility and financial viability of the business, particularly in areas such as safety standards, environmental regulations, and taxation.

CONCLUSION

In conclusion, the market entry strategy for a European airline joint venture with a local carrier hinges on leveraging complementary strengths to enhance competitive positioning and operational efficiency. By combining the European airline's extensive network, brand recognition, and advanced technology with the local carrier's regional expertise, established market presence, and customer base, the joint venture can offer a superior value proposition. Key strategic initiatives include optimizing route networks to maximize connectivity, implementing integrated marketing campaigns to boost brand synergy, and deploying revenue management systems to enhance profitability. Additionally, a strong focus on regulatory compliance, cultural alignment, and continuous innovation will be critical to navigating market dynamics and sustaining long-term success.

