A Analytical Study of Indigo: A Low Cost Successful Airline

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Introduction

Indigo is a fast growing Indian low-cost airline operating primarily domestic services, in addition to a few International routes. Indigo was conceived as a low cost carrier during 2005 by Rahul Bhatia (of Indian IT, travel and hotel group, InterGlobe Enterprises) and Rakesh Gangwal (an ex-US Airways CEO), which established the airline in February 2006. It launched services with a flight from Delhi to Imphal via Guwahati in August 2006 and was already serving Delhi, Bangalore, Chennai, Guwahati, Imphal, Hyderabad, Kolkata, Lucknow, Mumbai, Lucknow, Nagpur and Pune by the end of October 2006. By 2010 IndiGo had become the largest Indian LCC in terms of domestic passengers carried. It dropped to second place behind Jet Airways in 2011. Indigo was authorised by the Indian authorities to launch international services in January 2011. It placed what was then the largest commercial aircraft order of all time, worth $15 billion, for 180 Airbus A320 and A320neo aircraft in June 2011. Indigo launched international services with a flight from Delhi to Dubai on 1 September 2011. It was rated as India's only profitable airline in October 2011. Indigo has its headquarters at Gurgaon and has 3570 employees (as on 31Mar11).

Major Objectives

- Identify the strategies that work as well as those that do not for emerging airlines in the Indian aviation sector.

Minor Objectives

- To understand the reasons for the failure of established airlines to hold on to their market share.
- Indigo’s Market Position

The key parameters which demonstrate Indigo’s market position as compared to the other players in the Indian aviation scenario are

- Market Share
- Passenger Load Factor
- Net profitability

Market Share

Indigo has slowly but steadily grown its market share as is clearly evident from the market share data presented below. Despite commencing operations only in 2006, by 2012 (Jan12 to Nov12), Indigo’s market share stands at 21.2%. While this data presents the picture for the 11 month period wherein, a more recent and realistic view of the latest position can be seen in the Nov’12 market share data presented in the pie chart below. This is a better representation of the market share break up as Kingfisher’s flights were grounded completely from end of October 2012. The void created by this has been largely filled by Indigo who is the clear market leader with 27.3% market share in November 2012. Air India follows in second place with 20.7% and then by SpiceJet with 19.5%.
Indigo’s market share growth has been fuelled and driven by its expanding fleet Market Share position in Nov’12 (source: DGCA)

**MARKET SHARE OF SCHEDULED DOMESTIC AIRLINES**

*Source: DGCA*

Passenger Load Factor

Passenger Load Factor indicates the extent to which the seat capacity offered by the airline is taken up by fare paying passengers. High passenger load factor indicate the high level of demand for the airline’s service. High passenger load factors imply higher revenues and lower operating costs as the fixed costs of operating the aircraft are spread over a larger number of revenue contributing passengers.

The data presented below shows Indigo as having the highest passenger load factor both in Oct’12 as well as Nov’12.
Profitability

Indigo announced a Rs.550 crore profit in 2009-10 on a turnover of Rs 2,664 crore. It followed this with an Rs.650 crore profit in 2010-11. As against this, both Jet Airways and Kingfisher have posted losses in both the years. Indigo has managed this feat despite operating in the same environment and using the same infrastructure as its competitors. Indigo’s profitable operations have helped it to chart its growth story and add on new routes and steadily increase its market share. As against this, established carriers like Jet Airways and Kingfisher Airlines had to cut down a number of routes to bring down their losses. Kingfisher’s troubles have led to it having to ground its fleet completely from October 2012.

A comparison of the profitability position over the 2 years is presented below.

Indigo’s feat has not gone unnoticed by the industry and the business world. Some of the awards that Indigo has won are listed below:

- Market Share
- INDIGO was declared as the Best LCC by the Airline Passengers Association of India (2007)
- In the year 2008 Indigo was the Best LCC at the Galileo Express Travel Awards
- CNBC Awaaz’s Travel Award for best low cost airline (2009)
Indigo was also awarded the best low cost carrier in the Skytrax Awards for three consecutive years 2010, 2011 and 2012.

Based on the market share data, Indigo’s high passenger load factors and their profitability, it can be concluded that despite being a new entrant, in a very short span of time, Indigo has certainly made a significant impact in the Indian aviation scene. Therefore the Ho is rejected and the Ha is accepted.

Indigo’s Strategy Indigo’s success has been a result of a well-crafted and executed strategy which is examined in detail below. In a large part, Indigo’s success can be attributed to its sound business plan. Indigo has taken a measured approach and grown its market share through a well thought out and gradual expansion plan.

This expansion has been possible due to Indigo running a profitable operation which has been the outcome of sound strategies and planning in different areas of its operation. Being a new entrant, Indigo has also had the advantage of learning from the mistakes made by established carriers like Jet and Kingfisher and has effectively applied the learning in their strategies in different aspects of their business. Right from the outset, Indigo has had a solid business plan and more importantly, have at no point deviated from it. The different aspects of their Business plan have been examined below:

**Business Model**

Unlike Kingfisher and Jet Airways, Indigo has remained true to its business model of a low frills airline. This means that Indigo:

- Do not offer meals and drinks for free; these are sold on-board and are a source of revenue instead of cost.
- Does not offer a frequent flyer programme.

In stark contrast stands Kingfisher who has made multiple changes to their business model. Kingfisher was launched as an all-economy, single-class configuration aircraft with food and inflight entertainment. After about a year of operations, Kingfisher suddenly shifted its focus to luxury. It changed the configuration of its Airbus 320 aircraft (around 14 of them in the fleet back then) to 20 business class and 114 economy class seats from 180 all-economy seats. Kingfisher made too many changes in their business model and strategies. Other than adding to their costs this has led to strategic weakness and gave no time for the airline to stabilize. After Kingfisher’s plunge into luxury came its merger with Air Deccan, an airline formed by Captain G R Gopinath in 2003. The all-economy configuration of Air Deccan was rebranded and called Kingfisher Red, which continued to operate as its low-cost wing. In the process Kingfisher ended up spending Rs 550 crore on an airline that had losses of over Rs 550 crore.

The frequent changes have added to Kingfisher’s cost, created all round confusion and diluted the brand value. These changes are indicative of a business that had no clarity about its business strategy which in the long run has proved to be a costly mistake. Kingfisher’s downfall has coincidentally come at the same time when Indigo was slowly but surely spreading its wings.

Fleet Strategy Indigo has stuck to its plan of operating a single configuration aircraft, providing point-to-point connectivity. While Kingfisher and Jet Airways bought rivals, flew multiple plane models and struggled to mix full-service and low-fare options, IndiGo stuck with its policy of offering one class of no-frills service on a single type of plane, the world’s best-selling single-aisle aircraft, the Airbus A320.

IndiGo placed an order for 100 A320 aircraft in 2005 and was the first Indian airline to order the NEO (New Engine Option) with a contract for 150 A320neo and 30 A320s placed in 2011. Deliveries against the 2011 order will be received between 2016 and 2025. By 2025, Indigo is expected to have a fleet of 280 aircraft- all A320s.Indigo’s bulk orders have meant that Indigo has been able to strike savvy deals especially for its aircraft. The 100 Airbus aircraft deal signed in 2005 was a game changer as Indigo managed to get an exceptional price and this gave it the strategic ability
to leverage it significantly. The deal was to buy 100 Airbus 320 aircraft and every aircraft would be returned after six years. However, the real upside in IndiGo’s deal was a clause that ensured that Airbus would be responsible for anything going wrong with aircraft parts in subsequent years. For instance, when a problem was reported in the silver screw in the Airbus 320 engines in both IndiGo’s and Kingfisher’s aircraft, Kingfisher had to ground some aircraft while IndiGo’s problem was immediately taken care of by the manufacturer.

This is because of a full-suite ‘Power by the hour’ contract with IAE that put the onus of performance delivery on the manufacturer. IndiGo has similar agreements with the airframe maker (Airbus), as well as for the vendors for other critical components.

### Indigo's Fleet expansion

![Indigo's Fleet expansion](image)

Source: www.goindigo.com

#### Aircraft Configuration

The single aircraft type and configuration brings a tremendous amount of simplicity and operational flexibility into Indigo’s operation. Indigo has followed this approach right from the start and has not deviated from this model. In case of any operational glitches with a specific aircraft type on a route, they can deploy another aircraft without having to bother about the aircraft type or configuration. This reduces the possibility of flight cancellations due to technical glitches.

This is an advantage that Kingfisher and Jet Airways have not had because of the different aircraft types they have opted for and also acquired as a result of their acquisition of Air Deccan and Air Sahara respectively.

#### Network Expansion

IndiGo’s network expansion has been gradual. The airline launched with one aircraft and had a plan to add an aircraft every six weeks, giving them enough time to stabilise.

Unlike IndiGo’s measured approach, Kingfisher had earlier been very aggressive with its international expansion, launching long-haul as well as short-haul flights. Unfortunately for Kingfisher, it launched its international operations in 2008 which is when the market went into recession. Kingfisher’s operations have been grounded since October, 2012 and its operating permit, too, has been suspended.

In contrast, Indigo has followed a slow and steady approach. It has expanded its network gradually and waited for five years to launch its international operations. Today Indigo serves 25 destinations in India and 6 internationally.

#### Professional Airline Management

IndiGo has had professional management in place right at the outset. It’s first CEO, Bruce Ashby, was in India 18 months before the launch. It started operations with a well-structured business plan and got the right team. Bruce Ashby built the right systems, processes and competitive cost structures.
Rakesh Gangwal as the co-founder brought in his vast experience of global aircraft financing and know how as the ex CEO of US Airways. His understanding of airlines and operating airlines and working with manufactures gave Indigo the right edge from their inception- this is reflected in the clarity and focused approach that Indigo has maintained as well as the kind of deals and strategies it has followed.

The Bhatias have over 30-years’ experience of the sector – this experience has been built through Interglobe’s partnerships with various airlines over the years. Interglobe represents a number of international carriers in India as their General Sales Agent.

Among its other businesses, Interglobe has Interglobe Hotels (in partnership with Accor and Interglobe Technologies (IT service and Business Process Outsourcing operations), all closely related to the travel industry.

In contrast Kingfisher never had a professional airline management in place. Kingfisher Airlines’ Nigel Harwood was appointed when the airline was launched in May 2005, but left after over a year. The airline never had another CEO till September 2010 with Vijay Mallya insisting on running the airline until finally relinquishing control by appointing Sanjay Aggarwal as CEO.

Financial Strategy

Aircraft Financing

Indigo has followed the Sale and lease back strategy for their aircraft financing. This refers to buying an aeroplane from the manufacturer and selling it to a leasing company. This has helped Indigo to ensure that its balance sheet remains relatively debt free.

IndiGo uses six-year sale and leaseback agreements, so the airline is constantly replacing its aircraft. This has helped the company to have a relatively young fleet at any point of time as it has the option of not renewing the lease of older planes. This prevents the need for overall checks and major repairs, ensures safety and builds the confidence of the passengers in the airline. The bulk orders have also given Indigo a major pricing advantage.

According to Rahul Bhatia in an interview given to Economic Times, Indigo finances its aircraft through its internal accruals. Indigo may be using a combination of these strategies to fund their aircraft acquisitions.

This also means that Indigo is not reeling under debt and any associated interest payouts. This is another cost area that Indigo has so far not had to grapple with. As against this, carriers like Jet Airways and Kingfisher have to factor in interest payments into their operating costs.

Cost Control
Indigo follows a number of strategies which help it keep a tight rein on its costs. These include
No frills model: Since Indigo does not provide a hot meal service, the aircraft has none of the equipment required to keep the food hot. It also does not carry any cutlery. All this lightens the aircraft, which in turn leads to less fuel burn. And given that fuel in India is at least 50 per cent more expensive than globally and one of the biggest expenses, these measures help.

Indigo also keep its aircraft utilization rate very high, by cutting turnaround times and using their space better. On an average a low cost airline can seat between 160-190 passengers as compared to about 150 by a full service aircraft.

Lean Workforce: Indigo has one of the leanest workforce amongst the airline companies. They operate a fleet of 65 planes with just 3570 people which translates into a ratio of 1:55 which is better than the worldwide industry average of 1:125. Obviously this helps in saving costs and ultimately drives up their profits. Also their top management is less heavy and hence the decisions could be taken faster and better.

<table>
<thead>
<tr>
<th>Employees per aircraft</th>
<th>Year 2010-11</th>
<th>Source: DGCA, Airline website</th>
</tr>
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<tbody>
<tr>
<td>Indigo</td>
<td>55</td>
<td></td>
</tr>
<tr>
<td>Jet Airways</td>
<td>139</td>
<td></td>
</tr>
<tr>
<td>Kingfisher</td>
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**Product Strategy**

Indigo’s product strategy as outlined in Rahul Bhatia’s interview to the Economic Times in July 2011, follows three basic principles:

- On time performance
- Provide a fresh and clean travel experience
- Deliver excellent customer service within the framework of what Indigo offers to their customer right from the ticket booking stage to collection of bags

Being a low-cost carrier, none of Indigo's flights have Business class or First Class cabins. It offers only Economy class seating.

To keep fares low, IndiGo does not provide complimentary meals in any of its flights, though it does have a buy-on board in-flight meal programme. No in-flight entertainment is available, but the airline provides an in-flight catalogue Hello 6E which gives information about various duty-free products which can be bought on-board.

As an airline, Indigo has been very clear about what their customers want and have focused on keeping their value proposition simple, tight and consistent. This is reflected in their simplified pricing which means one fare, inclusive of all taxes and other charges, an easy-to-navigate website etc. According to the Indigo chief, one of every two of their customers is an infrequent flier and many are first-time fliers. Therefore, they have consciously aimed at simplifying flying for them.

Indigo has features such as queue busters at most airports, where passengers travelling with only cabin luggage do not have to queue up for check in. The roving check-in agents check in such passengers with a handheld device. Simple yet effective measures like these have helped Indigo enhance the travel experience while at the same time achieve their operational goals. This is evident from the operational excellence achieved by Indigo as seen in the various operational excellence parameters presented in this paper.
Operational Excellence
On Time Performance (OTP)

The data presented shows the on time performance statistics for all domestic carriers in November 2012. Indigo with 93% of its flights on time has one of the best on-time performances which it strives to maintain even in the face of poor infrastructure. This actually helps to build a positive image in the minds of the passenger. It is this commitment to achieving an efficient operation and living up to its promise that has made it the airline of choice for its ever increasing customer base. On time performance is not just a marketing tag line- it is a promise delivered for Indigo.

Flight Cancellation

Reliability of flight operations is an important criterion for the discerning traveller. For airlines, extremely poor passenger loads and at times, technical glitches lead to last minute flight cancellations. Here again, the flight cancellation statistics for Nov’12 are indicative of the reliability of Indigo’s operations. Indigo has the lowest flight cancellation rate of 0.3% compared to the Jet Group’s 1.5% and Spicejet 1.3%.

Turnaround Time and Aircraft Utilization

Indigo also broke industry standards on turnaround time. Turnaround time is the time taken for a plane to be ready for the next flight between landings and take-offs. IndiGo boasts of a turnaround time of less than 30 minutes.
Less time on the ground means more time in the air which also reduces fuel burning. A report in the Business Standard had said that Indigo’s aircraft spend more than 11 hours a day in the sky, compared to the industry average of 8 or 10 hours.

Operational Set Up

Indigo has a fully automated inventory management system which doesn't need human intervention. Flights get opened for sale several months in advance and the system decides how the inventory is to be sold the day it gets opened. As you get closer to the day of departure, the machine determines what the fares would be.

The machine develops artificial intelligence over a period of time. The system is programmed to apply the historical trend to maximize revenue by releasing the inventory at the right time for the highest possible price, thereby maximizing Indigo’s yields.

Marketing Strategy

Despite starting operations in 2005, Indigo did not indulge in any heavy duty advertising in the initial phase. They focused on delivering service excellence and the resultant word of mouth advertising that followed from its customers. Indigo’s brief to its agency Wieden+Kennedy, right from the start was very clear: IndiGo would be the third cool international budget carrier after Jetblue and Southwest Airlines of the US. At the time of launch, print and outdoor media were used to focus on launch markets, with the tagline "Ready for take-off". While other airlines advertise low fares, marketing or other promotional offers on their websites, IndiGo only talks about ‘On time performance’. Indigo has reinforced this image continuously through its tongue-in-cheek advertisements on television and print media.

The heavy duty advertising only began when Indigo was set to launch its international operations. The TV advertisement was targeted on the infrequent traveler, the key message being how Indigo made the entire travel process easier. Soon the focus switched to customer touch points, everything from the design of the safety instruction card, to the availability of a boarding ramp instead of a staircase, to the packaging of in-flight snacks were aimed at being more engaging, while still on-brand. This was the crucial phase when the voice of brand IndiGo would speak directly to the passenger, drawing attention to the high standards of service.

In the next stage, the target shifted to the corporate passenger by focusing on on-time performance. One of IndiGo's most popular TV commercials in 2010 featured a musical-style depiction of the link between making its processes more efficient and getting its passengers to their destinations on time. A voiceover added: "When we get our work done on time we become the world's most powerful economy on time; on time is a wonderful thing." Indigo's outdoor advertising of new flights also emphasises their value to the business traveller, focusing on metro routes and frequency.

Opportunities

Fuel Buying Strategy: Airlines may buy fuel on credit or may pay upfront. Credit purchases may come at a cost. Due to the confidential nature of this strategy, there is no public source of information on this aspect of the business for any airline. However, fuel accounts for a major portion of airlines cost. Based on Rahul Bhatia’s interview to Economic Times, there is an indication that Indigo may be paying for their fuel purchases upfront and not on credit.

Conclusion

All of the above goes to demonstrate that Indigo’s success as seen in their growing market share has been the outcome of a sound, well-crafted and rational plan. Sticking to the basics and being clear about what they offer has delivering on their promise consistently has helped Indigo create a positive image in the minds of the cost conscious Indian traveller.
References

Data Sources
- DGCA
- Flight Global
- Indigo Website: www.goindigo.in
- CAPA Website: centreforaviation.com

Other Web Articles