



PROBLEM FACED BY AIR INDIA: AN OVERVIEW

Reason of biggest aircraft order of aviation by air india

ABSTRACT

This paper is going to study the problems faced by one of the biggest airline company that is Air India. The civil aviation industry has recently been suffering from several setbacks. Ranging from lack of sufficient airports to lack of adequate safety infrastructure, the problems have been wide ranging even in the light of an increase in air traffic. One of the fastest growing aviation industries in the world is Indian Aviation Industry. Primarily it was a government owned industry, but now it is dominated by privately owned full service airlines and low cost carriers. Around 75% share of the domestic aviation market is shared by private airlines. Earlier only few people could afford air travel but now it can be afforded by a large number of people as it has become much cheaper because of stiff competition. We are trying to cover some of the problems that are faced by Air India. And trying to cover the objectives and issue of study, suggestion for improvement to solve some of the problem. This is not an A to Z full analysis of that company only try to cover some problems that they are facing. And we can also compare air India with its global competitor's aviation airline companies such as Emirates, Quarter Airways, Lufthansa, and Etihad Airlines who are facilitating great facilities for their passengers than Air India.

Key Words; Air India, Emirates, Etihad Airlines, DGCA

1. Introduction

Air India is the flag carrier airline of India, headquartered at New Delhi. It is owned by Air India Limited, a government-owned enterprise, and operates a fleet of Airbus and Boeing aircraft serving 94 domestic and international destinations. The airline has its hub at Indira Gandhi International Airport, New Delhi, alongside several focus cities across India. Air India is the largest international carrier out of India with an 18.6% market share. Over 60 international destinations are served by Air India across four continents. The airline became the 27th member of Star Alliance on 11 July 2014.

The airline was founded by J. R. D. Tata as Tata Airlines in 1932; Tata himself flew its first single-engine de Havilland Puss Moth, carrying air mail from Karachi to Bombay's Jehu aerodrome and later continuing to Madras (currently Chennai). After World War II, it became a public limited company and was renamed as *Air India*. On 21 February 1960, it took delivery of its first Boeing 707 named *Gauri Shankar* and became the first Asian airline to induct a jet aircraft in its fleet. In 2000–01, attempts were made to privatize Air India and from 2006 onwards, it suffered losses after its merger with Indian Airlines.

Air India also operates flights to domestic and Asian destinations through its subsidiaries Alliance Air and Air India Express. Air India's mascot is *the Maharajah* (Emperor) and the logo consists of a flying swan with the wheel of Konark inside it. Today, most of the civil air carriers of India are suffering from huge financial crunch. A study indicates that the leading airlines of India have suffered a loss equivalent to \$1.65 billion between the years 2012 and 2013. Many of the good carriers like Kingfisher and MDLR stopped their operations owing to huge debts. Although the government calls for an increase in the foreign investment of airlines in Indian carriers, the operating cost discourages many. India has one of the highest airline fuel costs in the world. This is due to an import of huge amount of Aviation Turbine Fuel (ATF) and monopolization of price setting by PSUs in exclusion of other private sources. Size of aircraft fleets-A major problem for the airlines in India is that the size of their fleets is very small for the domestic or international destinations. This affects the cargo traffic to a great extent.

2. Objectives of the study

1. To identify the problems faced by Air India
2. To identify the facilities offered by air India to customers
3. To know the government control on aviation sectors
4. To know about what are the suggestions to improve the sector
5. To differentiate with other global competitors of Air India (Emirates, Qather Airways) etc.
6. To know what are the recent innovations that they introduced to attract customers

3. ISSUE OF STUDY

3.1 SIX REASONS WHY AIR INDIA IS GOING DOWNHILL

The Comptroller and Auditor General of India (CAG) pointed out numerous holes in the government version that state-owned Air India is on a path to turnaround its fortunes. In its audit of the Turnaround Plan and Financial Restructuring Plan of the airline, the auditor said that the airline has failed to achieve many of the objectives in various functional areas mandated under the financial restructuring plan which provided equity infusion of Rupees 30,231 crore till FY21. This failure resulted in less revenue generation for the airline leading to requirement of more short-term loans for the airline which eroded the benefit of financial restructuring plan.

1) Less income in passenger revenue:

Air India earned passenger revenue of Rs 15,773 crore, almost 20% lower than projected Rs 21,297 crore in FY16. The failure to meet the target was despite meeting load factor targets. So that means that airline lost revenue due to its own inefficiency like lack of aircraft availability, faulty deployment, low utilization of human resources and lack of ancillary revenue.

2) Low monetization of assets:

Lack or faulty initiatives to monetize its assets- one of the primary requirement of meeting the revenue deficiency led to dip in the company's fortunes. The audit noticed that for five out of 12 properties the terms and conditions made it impossible to monetize. The turnaround plans envisaged that Rs 500 crore will be earned from monetization of 12 properties but Air India till February 2016 has marked only six.

3) Non-availability of proper aircraft:

The audit finds that there has been a mismatch in demand and availability of the airline. For instance, there was over provisioning of wide body aircraft where as it didn't have required number of narrow body aircraft. For instance, the airline after the recommendation by the consultant to buy induct A320 aircraft to reduce maintenance cost, it took three years for the airline to float a global tender. Till March 2016, it could only induct five A320 s which jeopardized the plan of reducing maintenance cost "Such long delays points to the inefficiency of the procurement process given the urgency of the requirement," the audit report said.

4) Mismanagement in granting bilateral agreements with foreign countries:

The audit pointed out that more than required granting of bilateral seats to carriers of foreign countries hurt Air India's prospects. As a result sixth freedom traffic carried by foreign airlines rose significantly which had an adverse impact on Air India's business plans. For instance bilateral seats was enhance from 13,330 seats to 50,000 seats in the India-Abu Dhabi befitted Etihad Airways at a cost of Indian carriers. "Considering the significant equity funds committed by the government to Air India decision to grant additional bilateral rights to foreign carriers should take into consideration its impact on Air India," the audit said.

5) Loss making international operations:

Air India can be on an expansion drive to new international destinations but the audit says that most of such routes burn a hole in the airline's pocket as it fails to recover the cost. For instance flights to North America and Europe results in a loss of Rs 2,323.76 crore in 2015-16. In the Delhi-New York-Delhi route the occupancy stands at 77% as Air India faces completion from from other airlines.

6) Mismanagement of manpower:

According to the requirement, the company had 11,433 employees as against the envisaged requirement of 7,245. In addition there was underutilization of pilots and cabin crews led to loss for the airline. For instance, for wide body and narrow body aircraft the airline required 291 pilots and 554 pilots respectively whereas it has excess excess 86 pilots as of 2015-16.

3.2 EIGHT REASONS WHY THE GOVERNMENT CANNOT AFFORD TO DELAY AIR INDIA SALE

After the government failed to receive any bids for its stake in state-run carrier Air India, the sale is likely to be put off. Most prospective bidders found the terms of sale too challenging. There were several daunting conditions. The government would have retained 24 per cent stake and the winning bidder was required to stay invested in the airline for at least three years. The winning bidder could not merge the airline with existing businesses as long as the government held a stake. The buyer was required to list Air India. It had to carry the responsibility of a huge work force that comes with Air India, having little scope to prune it. The government will have to launch the sale again soon with attractive conditions because it just cannot wait. Continuing under government ownership will lead either to an indefinite drain on the exchequer or to the closure of the airline at a great cost to employees, taxpayers, and the economy, according to Centre for Asia Pacific Aviation India, an aviation advisory and research firm. Delaying the sale or putting it off till the next government is elected is a risk

1. Losses will mount

Air India is expected to lose a total of \$1.5-2.0 billion over the next two financial years, namely FY2019 and FY2020: These losses will need to be funded by the taxpayers. And this is in addition to the \$4 billion of public funds that have been used to subsidize the airline since 2012. In fact, it is due to the billions of dollars infused to date and other perceived risks, that the government is faced with a delicate balancing act, as is evident from the terms in the EoI. Taking a more significant haircut than was planned in the EoI will be politically sensitive, but the alternative is to keep pouring more money into the airline indefinitely. The government needs to be prepared to take a bold decision on this for the long-term benefit of public funds

2. Debt burden will grow

The carrier's debt burden will continue to increase further: Air India's debt stands at \$7.5 billion and the outlook for the airline suggests that this will continue to rise.

3. Market share will drop

Air India's domestic market share is expected to drop below 10%: India's carriers are scheduled to take delivery of an unprecedented 120-125 aircraft in FY2019 alone, and more than 500 over the next five years. Most of these deliveries will be deployed in the domestic market. Air India has plans to induct just nine aircraft, on lease, primarily for replacement rather than expansion. As a result, Air India will continue to lose market share and relevance, dropping well below 10%

4. It won't remain global leader

Air India is expected to lose its mantle as the largest international operator: With Indigo NSE 5.04 % and Vistara both set to announce wide-bodied aircraft orders in the next few weeks, and Spice Jet also planning to take wide bodies on lease, the international long-haul market will become increasingly competitive. Jet is also expanding overseas, strengthening its partnerships, and evaluating a new aircraft order.

5. Marginalization on international routes

Air India's position as the largest carrier on international routes will come under severe pressure. And this in an environment where most of the largest foreign carriers are bilateral constrained. However, we expect that the government will relax the current bilateral policy settings in the near term to support inbound tourism, which will further intensify competition. In the longer term, Air India could be significantly marginalized on international routes

6. Air India Express will go down

Air India Express' financials are expected to deteriorate in the face of LCC expansion. Air India's low-cost subsidiary has been a solid performer over the last couple of years, but will face increased competition on regional international routes as AirAsia India, Go Air and Vistara all plan to launch overseas services for the first time, in the coming months. At the same time, Indigo plans to deploy A321neo LRs on international routes while Spice Jet will be inducting 737 MAX 8s and 10s, providing them with lower unit costs. The planned expansion by Indian LCCs is potentially likely to happen from those airports where Air India Express has traditionally had a strong presence.

7. Arms will come under pressure

Subsidiary units such as ground handling will come under pressure. The implementation of the new ground-handling policy will see competition intensify as additional concessions are awarded at key airports. The Airports Authority of India has this week commenced a tender process for new concessions at 37 airports. This is expected to erode the value of Air India air transport.

8. Brain drain

Air India could experience a brain-drain of skilled resources. With the rapid pace of growth of Indian aviation, skills shortages are emerging across the industry, particularly for commanders, but also engineers and management. Continued uncertainty about the future of the airline may precipitate an exodus of valuable human resources.

4. SOME OF THE GLOBAL COMPETITORS OF AIR INDIA

4.1 EMIRATES AIRINES

- Formed in 1985 by Govt of Dubai
- Initial operations started with just 2 aircrafts
- Largest airlines of the Middle East
- Operates 2,500 flights per week connecting 122 cities in 74 countries and 6 continents
- Subsidiary of Emirates Group, which has over 50,000 employees

Dubai Govt - Sole owner of Emirates does not put any new money into it, nor does it interfere with running the airline.

- Fleet: Passenger aircraft fleet consists 173 aircrafts as of 2012 with an average age of 6.5 years. A further 202 aircraft are on order.

Seventh-largest airline in the world in terms of International passengers carried.

- Largest in the world in terms of scheduled International passenger-km flown.
- Over 400 awards for service excellence
- World's largest fleet of Boeing 777s and A380s.
- Slated to become world's largest by 2015

Promotional offers of Emirates

1. Complimentary nights at Armani Hotel Milano
2. Fly, Buy, Win: a Tribute to Grace
3. Emirates Live
4. Book online pay down the line
5. Africa as Captivating as the Journey
6. Complete tour packages (including Hotel and Car service)

What does this say...

- Emirates. The Finest in the Sky
- Be Good to yourself. Fly Emirates
- When was the last time you did something for the first time Fly Emirates
- Fly Emirates. Keep Discovering

4.2 ETHIHAD AIRWAYS

Ethihad Airways, the national airline of the United Arab Emirates, was set up by Royal (Amiri) Decree in July 2003. Ethihad Airways commenced operations in November 2003 and is one of the world's fastest growing airlines. This airline has received a range of awards that reflect its position as one of the world's leading premium airline brands, including 'World's Leading Airline' at the World Travel Awards for six consecutive years. While its main business is the international air transportation of passengers, Ethihad Airways also operates Ethihad Cargo, Ethihad Holidays, Ethihad Airways Engineering and Ethihad Airport Services, as well as managing a global loyalty program and other aviation and non-aviation related businesses

KEY POINTS OF ETHIHAD

- Consumers benefit from lower oil prices with lower fares, more routes, and spend one percent of world GDP on air transport.
- Economic development big winner from the doubling of city pairs and halving of air transport costs in past 20 years.
- Governments gain substantially from US\$125bn of taxation next year and from 58 million 'supply chain' jobs.
- Equity owners see a far better 2015 with a seven per cent average airline ROIC, but still earn US\$5.7 billion less than they should.
- Fuel use per ATK to fall a further 1.6 per cent y-o-y, saving 12 million tons of CO2 emissions and US\$3 billion of fuel costs.
- Load factors forecast to slip as capacity accelerates; new aircraft deliveries represent a US\$180 billion investment.
- Jobs in the industry should reach 2.45 million, productivity will be up 4.8 per cent and GVA/employee almost US\$109,000.
- Infrastructure use costs are rising, plus inefficiencies in Europe alone add US\$3.8bn to airline costs next year.
- N. American region performs best with a 6 per cent net post-tax profit margin in 2015. Africa weakest at just 1.1 per cent.

4.3 Air Asia Airlines

Air Asia, established in 1993, is popularly known as a low cost airline, located in Malaysia. It is a pioneer Airline Company that earned great reputation for offering wonderful service at much affordable cost and lets you make your holiday at several worlds famous tourist destinations at affordable airfare. It is not only famous in Malaysia for its cheap service, in fact it is rated as an Asia's largest low-cost air fare. Sprawled in 25 countries, **Air Asia Airline** provides its great service for both domestic and international and provides a comfortable journey to the people. Moreover, it operates for 400 destinations throughout the world and provides maximum satisfactions to its customers. The airline has established its hub at Kuala Lumpur International Airport as Low-Cost Career Terminal. Headquartered in Jakarta, the airline was awarded for its wonderful service several times and regarded as the world's cheapest air cost, \$0.035/seat-kilometer and offered even common people to avail the service and make a world trip. Aside from offering world's cheapest airfare, it is also recognized as the world's first airline for implementing the ticket less journey and amazed everyone. The airline was established in 1993, but its operation took place in 1996 and operated by DRB-Hicom. The airline came with its second hub in 2003 at Senai International Airport located in Johor Bahru. The Company started its first service to Bangkok at low airfare. After that it became huge famous company for offering the most affordable journey and also prompted the people to make their way for getting the cheap airline tickets. Later, it added its second destination to Singapore and provided an excellent opportunity for people to gain access their favorite tourist's destinations in Singapore easily and with low airfare. After that, it offered its affordable service for several other countries that include China, Vietnam, Philippines, and Cambodia. Today, **Air Asia Airlines** became a leading airline company in Asia region that provides great pleasure journey with several attractive features. The departure of the flights of Air Asia takes place via Low Cost Carrier Terminal. Apart from that the company has joint ventured with many other airline companies and introduced several new features with its service. The company has several subsidiaries such as Thai Air Asia, Indonesia AirAsia,

AirAsia Philippines, Air Asia X, AirAsia Japan, and VietAirAsia Jet **Asia Airline** has managed to maintain its craze throughout the world and presently it operates more than 142 routes and covers the 78 destinations by providing about more than 400 flights. Moreover, it offers inflight service, popularly known as Snack Attack. Nancy Wilson is a writer and consultant specializing in Travel. She has approximately five years' experience in Travel. Nancy Wilson gives you information about **Air Asia Airlines** and last minute flights

5. SUGGESTION FOR IMPROVEMENT

Problem 1# STAFF BEHAVIOUR

- The human resources should hire employees with a positive service attitude.
- Newly recruited cabin crew should be required to undertake more intensive training courses that should emphasize on more topics like conversation skills, People Management Skills, problem solving etc.
- From the management's point of view it is important that the top management understand the challenges faced by the customer relations managers. For example, what is the financial impact of lost baggage claims to the airline

Problem 2# Stress factor: Carrying the Luggage till the airport

- To reduce the stress of the passengers related to carrying the baggage around, the airline can set up Offsite or remote bag drop, which allows passengers to check-in and drop off their bags at a downtown location before heading to the airport, is another service that can make the lives of travelers easier. (Five baggage handling solutions , 2013)
- Air India offers City check-in facility to passengers holding confirmed booking and travelling with hand baggage only. In Delhi the city Check-in facility / Baggage drop at some stations on the Airport Metro Express Line has also been introduced by Air India.

Problem 3# Stress Factor: Long queues at the airport

- Air India should extend its web check-in services for the cities of Bahrain, Dhaka, Muscat, Melbourne, Milan, Rome and Sydney. Also for passengers with special requests like wheel chair, unaccompanied minors etc. cannot make use of this facility.
- Although self-service check-in the most fast and easy-to-use method among all other check-ins, A survey of airports in India done by air transport IT specialist SITA and CAPA Centre for Civil Aviation showed that although 80 per cent of travelers said they had no worries about benefiting from the self-service facility to reduce the time spent at the airport, but only 30 per cent knew about the availability of such kiosks

Problem 4# Lost, damaged or delayed luggage of the passengers

- Air India can provide also provide bag location updates to its passengers. How does this work? When the passenger first checks in the bag, the airline scans it into its system—and then it scans the bag again any time it goes on or off an airplane. As a result, the airline can determine where the luggage is almost any time. When the passenger enters the claim number, they will see the same information. (No more Lost Bags, 2013)
- Bag recovery kiosk can be set up to allow passengers to report a missing bag. Surveys reliably illustrate that passengers would use kiosks to report lost baggage claims if the service was available. Out of the airlines surveyed by the SITA (Societal International de Telecommunications Aeronautiques) in 2008, 44 percent say they either offer the service already or plan to do so within two years. (Solving the baggage dilemma, 2009)

Problem 5# Passenger's Loyalty towards the Airline

- Air India needs to have a frequent flyer program which is differentiated amongst its various segments. Not on its current segments like First, Executive and Economy class but on classes Business travelers, Leisure travelers, Business High Frequency (HF) and Leisure High Frequency (HF) etc. Segmentation should be done on how frequently the passenger travels and how much premium they are ready to pay.
- One type of program does not fit all as all these four segments have different mindsets.

6. CONCLUSION

This analysis undertaken in order to do research on Air India's issues, customer service issues and to suggest recommendations in order to reduce the number of complaints received by them and to improve the overall passenger's experience. With regards to the objective, few specific problems with regards to certain customer service touch points were identified and recommendations have been made. The main findings of the research was that Air India is facing a lot of issues like Huge interest burden due to huge debt, Low labor productivity, Bureaucracy, economic downturns, fuel price spikes, health pandemics, natural disasters and terrorism and in terms of customer service it could improve on some areas like Staff Behavior, Carrying the Luggage till the airport, Long queues at the airport, Lost, damaged or delayed luggage of the passengers, Passenger's Loyalty towards the Airline, and Identifying Opportunities to connect with passengers through the Social Media.

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