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Travel Demand in Aviation

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INTRODUCTION

BACKGROUND

The civil flying industry in India has risen as one of the quickest developing ventures in the nation during the most recent three years. India has become the third biggest homegrown flying business sector on the planet and is set to overtake UK to turn into the third biggest air passenger market by 2024.

JRD Tata setup the first ever civil airline carrier services in India, which was later nationalized in the year 1953.The national flag-carrier services, which was then referred to as the “Maharaja”, had 32 operational routes. Currently, it is operational on over 43 routes. In the initial years, this air services was considered only for the elite class of the society due the cost involved in the services. But in the past few decades, this perception has changed due to the presence of a competitive market and emergence of other players in the segment that reduced the flying cost to a much greater extent.

The situation was through and through various in the fifties period where all the working carriers were clubbed under Indian Airlines or Air India, because of the Air Corporations Act, 1953 and this proceeded for the following 35 or more years. It was the directorate that controlled each territory of the flying activities that included guaranteeing airplanes, giving licenses, administration identified with the tasks of the air terminal and airspace. These duties were later doled out to the Airport Authority of India and till date, they are the working body overseeing the activities and different parts of the aircrafts business.

As the Indian economy started to open up in the mid-nineties, the aeronautics division specifically, saw some huge changes. One of the featuring changes among them was the repeal of the Air Corporation Act that finished the syndication of the public part and it was the point at which the doors were opened for the private players also. Homegrown advancement took off in 1986 with the dispatch of planned administrations by new beginning up transporters from 1992 (Ministry Of Civil Aviation).

The Government of India presented the open sky strategy for homegrown players in 1991 and for worldwide players before the finish of 2004.Increasing advancement and liberation has prompted an expansion in the quantity of players. The business involves three sorts of players –

- Full Cost Carriers
- Low Cost Carriers -LCC
- Other beginning up carriers

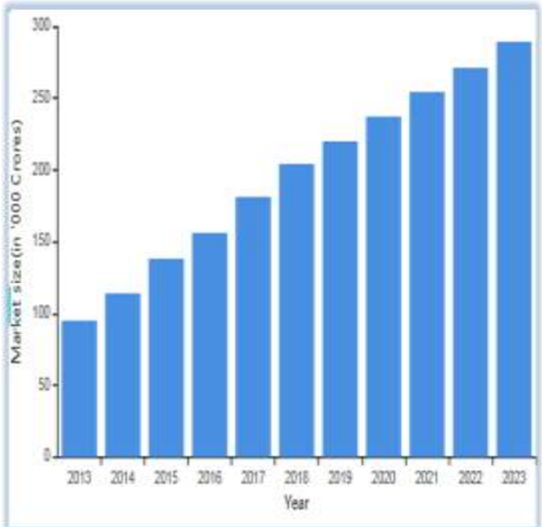

Fig.1- Market size on YoY basis (in ‘000 Crores) (DGCA)

PRESENT SCENARIO

It is a period of fast development in the business because of high develops in the LCC space, with limit developing at roughly 45%.This has actuated a period of extraordinary value rivalry with the officeholder full assistance transporters (Jet, Indian, Go Air, etc.)Counting up to 60-70% for specific courses to coordinate the new participant’s ticket costs. This, combined with cost pressures(a key cost component , Aviation Turbine

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Fuel cost, went up around 35% lately, while staff costs are additionally ascending on the rear of the deficiency of prepared experts), is likewise applying main concern pressures(Ministry Of Civil Aviation).

The development is dominated by the amazingly solid interest development, driven essentially due to the conversion of train/bus travelers to air travelers, who can now travel frequently due to the competitive prices offered by the carriers. There has, consequently, an expansion in both the width and profundity of the utilization.

Authorization of the open sky strategy among India and the SAARC nations, incrementin respective privileges with the EU and the US, and forceful advancement of India as an alluring travel industry spot helped India draw in numerous vacationers in the ongoing past. Additionally, expanding per capita salary has prompted an expansion in expendable wages, driving also welcomed spend on recreation and occasions and business travel has risen pointedly with expanding MNC presence.

The vital participants in the Indian civil avionics industry include: ✈ IndiGo
✈ Jet Airways-Services has now been suspended
✈ SpiceJet
✈ Air India Express ✈ GoAir
✈ AirAsia India ✈ Vistara

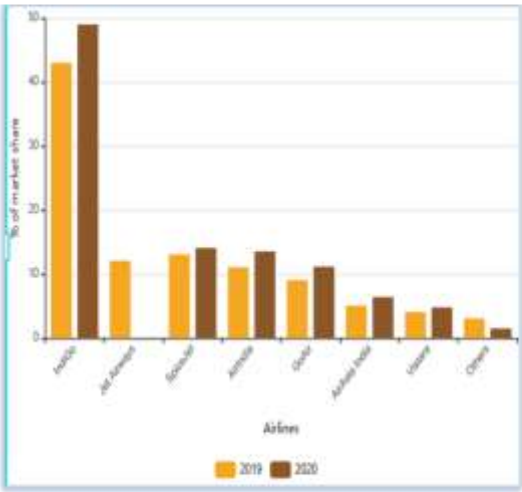

Fig.2- Market share of airlines from 2019 to Feb-2020 (including regional serviceproviders)
(Ministry Of Civil Aviation)

Key Highlights:
✈ As seen from the graph above, there has been an increase in the market shares of particularly all the service providers, except the regional service providers that reduced from 3% to 1.4%.

✈ IndiGo airlines, a subsidiary of InterGlobe Aviation has seen the increase inmarket share from 43% to 49%, top among all the service providers.
✈ One of the reasons for this increase can be attributed to the distribution of the customer's base of Jet Airways that suspended its services in first quarter of 2019.

Market Structure And Competition

As per the economic theory, market structures range from a perfectly competitive market to a monopoly. A perfectly competitive market implies a structure where there a number of sellers selling/providing the same product/services to a large portion of the customers. Since each producer supplies the product to only a fraction of the market, they have no influence on the market price.

While in a monopolistic market structure, there is only one producer or service provider which means that they have the authority to influence the prices completely.

Between the two falls another category called Oligopoly where there are few suppliers who control the significant part of the market. Pricing here falls between a perfectly competitive market and a monopolistic market.

The Indian civil aviation industry is an oligopoly market with majorly 7 players in the domestic segment which are:

✈ Indigo✈Air India ✈ Vistara ✈ GoAir
✈ Air India Express ✈ SpiceJet
✈ AirAisa India

1. Competition pertaining to Indian civil Airlines Industry:

✈ There are total 7 domestic carriers in Indian civil aviation industry. ✈ Sources of Oligopoly includes:

a. It takes around Rs.4, 000 Crores in present currency to start airlines services.

b. It is a hard task and cumbersome process to acquire a permit from thegovernment agencies to start airlines services.

✈ Firms are a price setter.
✈ Strategy is dependent on the rival airline service provider's behavior.

2. Inference:
✈ The civil aviation industry in India represents a structure of oligopoly market.
✈ Customers prefer availing the airlines that

provides cheap services as compared to the other carriers.

- Indian aviation industry has the potential to become the largest industry in terms of passengers, currently positioned at the third position.

3. Competition Highlights:

- There are a small number of large carriers such as IndiGo, SpiceJet and Air India that are currently dominating players in the domestic segment. As per the current market scenario, the industry comprises of six leading players, with each having a market share of at least four percentages.
- The top four players add up to 87.60% (as in 2020) of the total market share.
- In context to the Indian civil aviation industry, the barriers to market entry have factors like high mortality rate within the airline business. Also, during the gestation period, a private service provider needs sufficient staying power in order to buy the aircrafts and capacity to absorb the initial losses pertaining to operations.
- Also, in order to emerge successful, the new players in the segment must be able to bear the market entry cost and absorb the incumbent response with regards to the entry of a new operator.
- The Indian civil aviation industry is a differentiated oligopoly with few firms that provide the services differentiated enough when measured in terms of quality, frills offered and frequent flyer programs (Ministry Of Civil Aviation).

MAJOR PLAYERS IN THE INDUSTRY

1. INDIGO AIRLINES

The airline was found by a private company by Rahul Bhatia of Interglobal Enterprises and Rakesh Gangwal in 2006. Indigo airline is known for its low-cost passenger airlines which has headquarters at Gurgaon, Haryana. Indigo airlines as the largest market share in the civil aviation industry in India and also the largest passenger carrier.
Fleet Size: more than 250
Market Share: 48.9% as of march 2020

2. SPICE JET

Spice jet is also a low-cost airline provider. It is headquarters at Gurgaon, Haryana. The firm was started as a taxi service provider by ModiLuft in the year 1994, which was later acquired by Indian entrepreneur Ajay Singh in the year 2004 and renamed it as SpiceJet. The airline carries passengers around 53 destinations all around India. The airline contains a fleet of Boeing 737 and Bombardier Dash 8 aircrafts.
Market Share: 16%
Fleet Size: 117

3. AIR INDIA

Air India has headquartered at New Delhi and is a flag carrier airline of India owned by Air India Ltd. A government owned airline in the airline Industry. It has fleet consisting of Airbus and Boeing aircraft. The airline flies over 102 domestic locations in India. It has its hub at Indira Gandhi International Airport at New Delhi.
Market Share: 10.8%
Fleet Size: 127

4. GOAIR

GOAIR has its headquarters at Mumbai, Maharashtra. It is owned by the Indian entrepreneur named Wadia Group. The airline flies to 27 domestic destinations in India.It has its hub at Mumbai, Delhi, Bangalore, Kolkata and Kannur.
Market Share: 9.9%
Fleet Size: 58

5. AIRASIA INDIA

AirAsia India has its headquarters at Bangalore, Karnataka. The airline is owned by a joint venture between Tata Sons holding 51% stake in the airline and AirAsia Investment Ltd holding the remaining 49% stake. AirAsia is the 4th largest passenger carrier in India
Market Share: 7.6%
Fleet Size: 30

VISTARA

The Vistara is owned by the Tata SIA Airlines Ltd which has its headquarters in Gurgaon, Haryana with its hub at Indira Gandhi International Airport. It is also a joint venture between Tata sons and Singapore Airlines. The airline was a fleet consisting of Airbus A320, Airbus A32, Boeing 787 and Boeing 737 aircraft.
Market Share: 5.9%

Fleet Size: 43
(Ministry Of Civil Aviation)

HERFINDAHL INDEX

The Herfindahl Index is a measure of the size of firms in an industry and it is an indicator of the competition between them in the market. It was given be the economists Orris C. Herfindahl and Albert O. Hirschmen.

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It is defined as the sum of the squares of the market shares of firms within an industry, where the market shares are expressed as fractions. The score of Herfindahl Index is then taken to understand the competitiveness among the firms in the industry and also to know the type of market. (Ministry Of Civil Aviation)

Fig. 3 Herfindahl Index showing the market shares of major players (DGCA)

Companies	Market Share (in %)	Square of Market Share
INDIGO	48.9%	2391.21
SPICEJET	16%	256
AIR INDIA	10.8%	116.64
GOAIR	9.9%	98.01
AIRASIA INDIA	7.6%	57.76
VISTARA	5.9%	34.81
Others	0.9%	.81
Total	100%	2955.24

Interpretation:

The Herfindahl Index is a method of measure to know the market concentration and market competitiveness. The more the Herfindahl value is closer to 0 it shows that the market is near to perfect competition and when the total value shown is near to 10,000 it is much closer to Monopoly. As per the U.S. Department of Justice a value less than 1500 to be a competitive market place. A value between 1500-2500 is considered to be moderately competitive market and a Herfindahl index of more than 2500 is considered a highly competitive market.

Here the Herfindahl Index shows a value of 2955.24 which is greater than 2500. So, we can say that the Airline Industry has a very competitive market. There are only a few sellers and there is high competition among them.

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