

TEACHING NOTE

AIR DECCAN: REVOLUTIONISING THE INDIAN SKIES

DVR Seshadri and Jane Henry*

CASE FACTS

Civil Aviation in India, since its inception, has been a mode of transport mainly for the elite, and it implies that it is within the means of affordability of less than 1% of the population only. The launch of Air Deccan in the last two years has changed this paradigm forever. The singular driving force behind this audacious venture is Captain Gopinath. Over the years, there have been many low-cost airlines in service in the advanced countries. Many of them have succeeded despite the general downturn in the aviation industry post 9/11. Equally tenacious entrepreneurs, who saw the potential for a low-cost and 'no frills' airline, have launched many of these ventures. In what is peculiar to India, Captain Gopinath saw the market not in terms of those who were flying, who would want a low-cost airline, but instead as the more than one billion Indians, who had no possibility of flying ever in their lives in the legacy airlines, simply because there was no way they could ever afford the price. That Air Deccan could even think of launching a regular airline, given their very modest means, and more importantly, strong political support of the existing players, is a feat by itself. Its continued growth, month after month, is a saga of fortitude and tenacity. This case study describes the story of the launch of Air Deccan and the challenges ahead of it. It can be discussed in a course / module on 'Entrepreneurship.' It can also be used in a course on 'Strategy' to illustrate how a start-up with a strong value proposition could take on the well-established players in the industry, by 'frame-breaking' innovation. In addition to the usual approaches to cost containment adopted by low-cost airlines worldwide, Air Deccan has implemented several measures that are unique in the Indian context. This has resulted in steady increase in the market share of the airline, much to the consternation of the established players, viz., Jet Airways, Air Sahara and Indian Airlines. Consequently, it has resulted in fierce competition and price wars in the Indian skies, with the net result that the passenger has benefited significantly. There are a number of challenges that Air Deccan has to contend with. It has set for itself a mission to enable every Indian to fly. Passenger fares for long haul flights such as Bangalore to Delhi, covering over 2000 km, can now be purchased for as low as Rs. 500 (about US\$10), if purchased early. It perceives the market as practically unlimited, and sees itself as the largest airline in India five years hence. The case discussion in the class can focus on the challenges that the company has to face to reach this very ambitious goal.

ABSTRACT (SUMMARY)

* This teaching note has been written by Dr. D. V. R. Seshadri, Visiting Professor and Jane Henry, Research Assistant at the Indian Institute of Management, Bangalore. The case and the teaching note were first published in the *South Asian Journal of Management* Vol. 12, No. 4, Oct-Dec 2005, pp. 94-126. Copyright of the case is held by AMDISA Secretariat. Reprinted by permission of the AMDISA Secretariat.

This case study describes the story of the launch of Air Deccan, India's first Low-cost Airline, and the challenges ahead of it. It can be discussed in a course/module on 'Entrepreneurship.' It can also be used in a course on 'Strategy' to illustrate how a start-up with a strong value proposition could take on the well-established players in the industry, by 'frame-breaking' innovation. In addition to the usual approaches to cost containment adopted by low-cost airlines worldwide, Air Deccan has implemented several measures that are unique in the Indian context. This has resulted in steady increase in the market share of the airline, much to the consternation of the established players. It perceives the market as practically unlimited, and sees itself as the largest airline in India five years hence. The case discussion in the class can focus on the challenges that the company has to face to reach this very ambitious goal.

USE

We designed the "Air Deccan: Revolutionizing the Indian Skies" case for use in a course on Entrepreneurship or Strategy in either an MBA or Executive Education Program. Instructors can use the case to illustrate how an entrepreneurial mind works. Additionally, now that Air Deccan is a reality, the case can also be used to discuss the challenges ahead and the strategies that the company should come up with for the future. Essentially, students must address a host of issues relating to entrepreneurship and strategy.

We provide background information on the company including considerable background of the entrepreneur, Captain Gopinath, whose dream is to make 'flying : affordable for every Indian.' Students must review all of the diverse information I presented in the case, identify the elements of a successful entrepreneur and then move on to identify and prioritize the challenges ahead. They should then come up with effective strategies to ensure continued success of the company.

SYNOPSIS

With daily sales in excess of Rs. 15 mn, and growing steadily, Air Deccan has redefined the paradigm of air travel in India. Until the launch of Air Deccan, air travel was essentially meant for the affluent sections of the society, due to the high pricing structures. Air Deccan has transformed the aviation landscape in the country. Today, air travel, if planned well in advance, is often cheaper than travel by second-class train. While there are many low cost airlines the world over, especially in the USA, Europe, Far East and Australia, the challenges of replicating this in India were not trivial. Three powerful established players (Indian Airlines, Jet Airways and Sahara) were not amused with this upstart airline and with their deep connections in the political and bureaucratic system of the country, wanted to scuttle the start-up airline. This case is one of intense constancy of purpose and extreme tenacity of the main promoter of the venture, Capt. Gopinath. Despite heavy odds, including lack of finances, he and his team came up with creative solutions at every step, to overcome the hurdles. His entrepreneurial style warrants close study to draw out useful lessons for any aspiring entrepreneur.

However, it is fair to say that while the progress has been spectacular, challenges abound. Issues relating to the continued growth and success of Air Deccan require a clear strategy. This can be the focus of the second part of the case discussion.

CASE PREPARATION QUESTIONS

1. What are the lessons you can pick up from the launch of the entrepreneurial venture by Captain Gopinath?
2. While low cost airlines are not new to the world, Air Deccan was clearly the torchbearer of this concept in India. What additional challenges did Captain Gopi have to contend with vis-à-vis a low cost operator in the advanced countries?
3. Develop a business model for Air Deccan.
4. Going forward, what are the challenges that the company has to grapple with?
5. What should be the strategy of the company?

ANALYSIS OF CASE QUESTIONS

It is difficult to have right or wrong answers to the case questions. The purpose of this case is to make the students immerse themselves into a start-up company and come out with lessons. In this sense the case is fairly open-ended, giving ample scope for students to explore in-depth the areas of entrepreneurship and strategy in the context of the case.

To have maximum learning, it will be useful to get the participants to read some or all of the suggested chapters in the Reading List that follows this section.

Ideally this case should be preceded by 3-4 hours of work by participants, who should be formed into teams of four to six persons each.

1. What are the lessons you can pick up from the launch of the entrepreneurial venture by Captain Gopinath?

The case is replete with illustrations of how Captain Gopinath crafted the company from scratch. He went on a 'boot strapping' mode, which is the hallmark of a successful entrepreneur. The constancy of purpose, focus and humility are evident. His ability to sense opportunities from chance encounters (such as a visit to the USA or the Southeast Asian countries) are out of the ordinary experience. These and many other qualities are a 'must have' list of qualities of a successful entrepreneur. Anyone aspiring to succeed in an entrepreneurial venture will do well to emulate these qualities, among others. The class may be encouraged to extract all the various qualities of Captain Gopi that have made him successful.

2. While low cost airlines are not new to the world, Air Deccan was clearly the torchbearer of this concept in India. What additional challenges did Captain Gopi have to contend with vis-à-vis a low cost operator in the advanced countries?

A precursor to this discussion that would be useful is to draw out challenges of setting up and operating a low cost airline anywhere in the world, including in advanced countries.

Setting up and successfully operating a low cost airline is a challenge in the best of circumstances, even in the advanced countries. In India the challenge is considerably more. The case is embedded with a lot of subtle factors that make the challenge of setting up and successfully running a low cost airline in India even more of a challenge, than it is to do in the advanced countries. Participants may pick up these aspects, and in fact debate on whether it is easier or more difficult to pull off such a venture in India vis-à-vis the advanced countries.

3. Develop a business model for Air Deccan.

A detailed explanation of the components of a business model is presented in Chapter 3 of the book 'Leading the Revolution by Gary Hamel (reading No. 5 in the following). It will be useful if the students read that chapter, and then develop what they see as the business model of Air Deccan. A team of students can be asked to present their model, while other teams may comment on it.

4. Going forward, what are the challenges that the company has to grapple with?

The challenges that the company has to face are now only beginning. In the initial stages of the company, many of the established players (Indian Airlines, Jet Airways and Sahara) would have trivialized the company and not expected it to reach the level it has reached now. Suddenly, the company has appeared as a big dot on the radar screen of these well-established players. The existing paradigm is that running an airline requires large funding, something that Captain Gopinath lacked. Hence, the existing players would have concluded that this venture was bound to fail. However, there was a lot of entrepreneurial creativity (Questions 1 and 2) manifested by Captain Gopi that helped him make his dream a reality, and today Air Deccan is a force to reckon with. Besides, many other 'me too' low cost airlines are already on the anvil. The Government and the realities (case Exhibit-6) are also things to reckon with. Participant teams may identify other challenges as well. How Captain Gopi and his team will deal with all these identified challenges will make observation interesting.

5. What should be the strategy of the company?

This is a fairly open-ended question. Participants may read one or more of the three references for this question (Readings 2, 3 and 4) and present the strategies they come up with. A neat exposition of how to do this at a business level is presented in Reading No. 3.

WHAT HAPPENED

The company, as of June 2005, is growing from strength to strength. Captain Gopi and Air Deccan are regularly featured in the various media in India as having ushered in the democratization of air travel in India. The company is bullish about the future. Several

companies are seeking to emulate the Air Deccan model. The three established airlines are under constant price pressure from these low cost operators. The overall scenario is fairly dynamic as of now and experts expect considerable churn to take place in the coming years. Students may be encouraged to study the websites of the various airlines in the country and report back on how they have fared since the writing of the case.

READINGS

1. *Harvard Business Review on Entrepreneurship*, Harvard Business School Press. (Chapter-7: Bootstrap Finance: The Art of Startups, Amar Bhide, page 149-174; Chapter-1: The Questions Every Entrepreneur Must Answer, Amar Bhide, page 1-28; Chapter-3: How Entrepreneurs Craft Strategies that Work, Amar Bhide, 57-88; Chapter-4: How Much Money does your New Venture Need, James McNeill Stancill, 89-116) [for Question 1].
2. *Strategy Safari: A Guided Tour Through the Wilds of Strategic Management*, Henry Mintzberg, Bruce Ahlstrand, Joseph Lampel, The Free Press, 1998 (Chapter 5: The Entrepreneurial School: Strategy Formation as a Visionary Process) [for Question 1 and 2]
3. *The Strategy Concept and Process: A Pragmatic Approach*, Arnaldo C Hax and Nicolas S Majluf, Prentice Hall, 1996 (Part-II: Business Strategy, Chapters 3 to 8, Pages 43-183) [for Questions 2, 4 and 5].
4. *The Strategy Process*, Henry Mintzberg, James Brian Quinn, John Voyer, Prentice Hall, 1995 (Chapter 9, Structure and Strategy in Entrepreneurial Organisations) [for Question 5].
5. *Leading the Revolution*, Gary Hamel, Harvard Business School Press, 2002 (Chapter 3: Business Concept Innovation) [for Question 3].