

Spice jet's perspective essay sample



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Strategic Management Assignment on “ Low-Cost Carriers in India - Spice Jet's Perspective” Q1. How did the concept of LCC emerge in India? Which factors encouraged the growth of LCCs? Ans. After the liberalization policy which was introduced in 1991 the Indian market witnessed the entry of privately owned airlines and LCC. By march 1994, the government had approved six private carriers. However, by 1998 many of these airlines failed. In this closure game, a total of IMR 10 billion of capital was wiped out. By 2003, there were just four carriers operating in India -Air India, Indian Airlines, Jet Airways and Air Sahara - all operating full service models. And private carriers in those days were limited to operating domestic routes only. In 2003 the first LCC entered in India which was the Air Deccan. The entry of this first LCC in India constituted a turning point in Indian aviation industry. It led to a shift from traditional economy and business fares to special discounts, promotional fares, check fares, web fares and corporate discounts. India witnessed a compounded annual growth rate of 19. 14% in the air passenger traffic and 9. 91 % in cargo movements over the period from 2003-2004 to 2007-2008. This complemented the success of the LCC model referred to as the “ no frills airlines” business model. This encouraged other private airlines to emerge. The entry of LCC along with increased FDI inflows, tourist inflows, higher corporate travel, higher household incomes, sustained business growth and supporting government policies, all contributed to the growth of the Indian aviation industry. Today, there are effectively seven major airlines operating 11 different brands. * Air India + Air India Express;

- * Jet Airways + Jet Konnect + JetLite;
- * Kingfisher Airlines + Kingfisher Red;
- * IndiGo;
- * SpiceJet;
- * Go Air;
- * Paramount.

Out of which GoAir, IndiGo, SpiceJet, JetLite are LCC airlines. The most significant recent strategic development in the Indian domestic market is that it is rapidly turning low cost. An operating model that did not exist in the Indian market until six years ago, could account for almost 70% of domestic capacity by the end of 2010, as predicted by the Centre for Asia Pacific Aviation as early as 2005. The shift to low cost has been accelerated recently by moves by Jet Airways and Kingfisher Airlines to reconfigure the majority of their domestic aircraft to operate all-economy, no-frills service. Air India is also planning to follow suit. As of Mar-2010, on the domestic front, the three large airline groups – Air India, Jet Airways and Kingfisher Airlines commanded a 59.7% market share, while the independent LCCs controlled 39.0%.

Indian carriers domestic market share: Mar-2010

Low-cost airline principles:

All Low-cost airlines have a different service offering, by definition they offer some or most of the below. * Standardized fleet (Lower training, maintenance costs. purchase aircraft in bulk) * Remove non-essential features (Non-reclining seats, no pilot auto throttle, no frequent flyer schemes) * Use of secondary airports (Lower landing fees, marketing

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support) * Rapid turnaround (Less time on the ground, more flights per day)

* On-line ticket sales (No call-centers or agents)

* On-line check in (Fewer check in desks)

* Impose baggage charges (Less bags mean quicker loading of aircraft, extra revenue for checked bags) * Do not use jet-ways (Avoid extra airport charges)

* Have staff do multiple jobs (Cabin crew also check tickets at the gate, clean aircraft) * Hedge fuel costs (Buy fuel in advance when it is cheaper) * Charge for all services (On board services, reserved seating, extra baggage) * Do not use reserved seating (Slows down the loading of the aircraft) * Fly point to point (Passenger transfers to other flights not accommodated)

Q. 2 what factors should SpiceJet consider before strategizing its operations in India. Use tools such as CPM (Competitive Profile Matrix), EFE Matrix (External Factor Evaluation), & IFE (Internal Factor Evaluation) which serves to identify various factors and forces that are critical in formulating appropriate strategies needed to accomplish the organization's objectives. Ans. IFE is a tool which essentially evaluates the internal factors that affect the strategies of a firm. The factors can be economic, demographic, cultural, political etc. The different factors that can be considered under the same are: Strengths

a) Low cost fares: entered with Rs 99 fares for first 99 days. b) Targeting tier II tier III cities which gave an opportunity to increase its market share. c) More seats were available as compare to any other LCC model. d) Excellent LCC model

- e) Low maintenance and staff costs
- f) More air time than hibernation
- g) Use of secondary airports avoiding congestion

With the help of the following strengths SpiceJet was able to maintain operating costs 30 to 40 per cent lower than the full service carriers.

Weaknesses

- a) Small fleet structure.
- b) Concentrating at only North- west-south Indian Sectors. c) Small load efficiency compared to Air Deccan
- d) Low Employee satisfaction
- e) Rising attrition levels
- f) Infrastructure issues

EFE is a tool which essentially evaluates the external factors that affect the strategies of a firm. The factors can be economic, demographic, cultural, political etc. The different factors that can be considered under the same are: Opportunities

- a) Future Fleet expansion will increase its market share
- b) Use of digital media
- c) Attractive fares and up to date quality service will generate a huge customer's base comprising frequent flyers. d) Favorable consumer preferences
- e) Use of strategic alliances forming an international entity

Threats

- a) High attrition rate

- b) The threat of new entrants
- c) Strict airline regulations
- d) Security measures – a key challenge
- e) Terrorist and hijack situations pose another threat
- f) Increasing competition
- g) High rates of ATF

Q 3. What strategies could be adopted by Spice Jet to overcome the factors that inhibit the success of the LCC business model? You can focus on *

Differentiating the Offer

- * Tackling Operating Costs
- * Entering into Strategic Alliances
- * Managing Employee Remuneration Costs
- * Motivating Employees

Differentiating the offer:

* SpiceJet entered into the market with Rs 99 for the first 99 days. Their main objective was “ offering low everyday spicy fares”. * SpiceJet has already worked on all the strategies based on the LCC model which seem to have worked in their advantage for many years. Their current offer talks about a single passenger class and travel for short durations. However, currently they are assuming that customers do not associate much importance with add-ons like meals, newspapers and on board entertainment. * Air travellers seek for “ low fares coupled with a comfortable travel experience”. * They should also have fares slightly higher than that of low-cost airlines since to offer frills to those of its travellers who would normally travel business class on full-service airlines. This Strategy will attract the business class travellers

Tackling Operating Costs:

Look at targeting working operations on an international level. Strategy that can be looked at in terms of reducing operational costs is a) Travelling only to major airports and cut down on the issue of connectivity. b) Flying a single type of aircraft to cut maintenance costs c)

Operating from secondary airports : Due to lack of secondary airports in India all these years, LCC have been forced to pay higher landing fees thereby increasing cost, but with the new reforms of the NCC69 the scenario is bound to change and LCC can exploit this opportunity to their benefit. d)

Direct E-ticketing sales

e) Change in Airline culture: Mismanagement and incapable staff comes at a cost to the entire airline. Pilots and cabin crews need to be trained from first aid to baggage handling to be able to double up when needed. The culture needs to be changed whereby everyone in the company is viewed to be equal, thereby enabling Spic Jet to save on labour costs and offer lower fares to customers. Entering into Strategic Alliances

Entering into Strategic Alliances can help Spice Jet to get competitive advantage in the market. For Eg-The country's airlines market leader Jet Airways (FSC) has decided that Air Sahara, which it recently acquired will start operations under the name of " Jetlite". " Jetlite will be positioned somewhere in between a so-called low fare and full service carrier. In case of cancellation or delays, passengers flying on Jetlite would be accommodated on Jet Airways." This kind of differentiation will lead to sustainable competitive advantage in the market. Managing Employee Remuneration Costs and Motivating Employees In order for Spice Jet to remain competitive, <https://assignbuster.com/spice-jets-perspective-essay-sample/>

it should aggressively pursue talent to increase productivity and profitability, leveraging human capital to maintain a competitive advantage. To meet this challenge, companies, must craft a clear and compelling strategy for implementing a well thought-out total reward/compensation plan to attract, retain and motivate key talent. This total reward strategy should integrate key components including: 1. Total compensation

2. Benefits

3. Work-life balance

4. Training, career and personal growth opportunities (World at Work Model)

These core components are critical for an organization like Spice Jet to survive and thrive into today's complex and challenging business climate.