

Pestal analysis of airline industry in india

Business



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Walsh, who was in Mumbai on September 3rd, 2010 to announce a code-share agreement with Kingfisher Airlines, says that despite the airline facing mounting competition from other international carriers operating in India, he is not worried as India has huge growth potential and each player can have a decent pie of the expanding market. On the flip side, he tells that though the future of the aviation industry is consolidation and many foreign carriers want to invest in India, Indian law does not permit them to do so. Mr.

Willie Walsh said, " India is the second largest market for us after the US.

In fact, after the recession, India was among the fastest regions to recover from the downfall. We are operating in and out of India for the past several decades and will continue to do so in a consolidated fashion. We have a huge customer base here and we still find growth opportunities in the region. Though I can't divulge revenue details from India, I have always said that India will be one of the biggest aviation markets in the future and clearly, we want to have a very strong presence in this market.

" PESTLE Analysis: The Indian Airline Industry Political Factors

In India, one can never over-look the political factors which influence each and every industry existing in the country. Like it or not, the political interference has to be present everywhere. Given below are a few of the political factors with respect to the airline industry: The airline industry is very susceptible to changes in the political environment as it has a great bearing on the travel habits of its customers. An unstable political environment causes uncertainty in the minds of the air travellers, regarding travelling to a particular country.

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Overall India's recent political environment has been largely unstable due to international events ; continued tension with Pakistan. The Gujarat riots ; the government's inability to control the situation have also led to an increase in the instability of the political arena.

The most significant political event however has been September 11. The events occurring on September had special significance for the airline industry since airplanes were involved. The immediate results were a huge drop in air traffic due to safety ; security concerns of the people.

International airlines are greatly affected by trade relations that their country has with others. Unless governments of the two countries trade with each other, there could be restrictions of flying into particular area leading to a loss of potential air traffic (e. g.

Pakistan ; India) Another aspect is that in countries with high corruption levels like India, bribes have to be paid for every permit ; license required. Therefore constant liasoning with the minister ; other government official is necessary.

The state owned airlines suffer the maximum from this problem. These airlines have to make several special considerations with respect to selection of routes, free seats to ministers, etc which a privately owned airline need not do. The state owned airlines also suffers from archaic laws applying only to them such as the retirement age of the pursers ; hostesses, the labour regulations which make the management less flexible in taking decision due to the presence of a strong union, ; the heavy control ; interference of the government.

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This affects the quality of the service delivery ; therefore these airlines have to think of innovative service marketing ideas to circumvent their problems ; compete with the private operators.

Economic Factors Business cycles have a wide reaching impact on the airline industry. During recession, airline is considered a luxury ; therefore spending on air travel is cut which leads to reduce prices. During prosperity phase people indulge themselves in travel ; prices increase.

After the September 11 incidents, the world economy plunged into global recession due to the depressed sentiment of consumers. In India, even a company like Citibank was forced to cut costs to increase profits for which even the top level managers were given first class railway tickets instead of plane tickets.

The loss of income for airlines led to higher operational costs not only due to low demand but also due to higher insurance costs, which increased after the WTC bombing.

This prompted the industry to lay off employees, which further fuelled the recession as spending decreased due to the rise in unemployment. Even the SARS outbreak in the Far East was a major cause for slump in the airline industry. Even the Indian carriers like Air India was deeply affected as many flights were cancelled due to internal (employee relations) as well as external problems, which has been discussed later. Social Factors The changing travel habits of people have very wide implications for the airline industry.

In a country like India, there are people from varied income groups.

The airlines have to recognize these individuals and should serve them accordingly. Air India needs to focus on their clientele which are mostly low income clients ; their habits in order to keep them satisfied. The destination, kind of food etc all has to be chosen carefully in accordance with the tastes of their major clientele. Especially, since India is a land of extremes there are people from various religions and castes and every individual travelling by the airline would expect customization to the greatest possible extent. For e. g.

A Jain would be satisfied with the service only if he is served jain food and it should be kept in mind that the customers next to him are also Jain or at least vegetarian. Another good example would be the case of South West Airlines which occupies a solid position in the minds of the US air travelers as a reliable and convenient, fun, low fare, and no frills airline. The major element of its success was the augmented marketing mix which it used very effectively. What South West did was it made the environment inside the plane very consumer friendly.

The crew neither has any uniform nor does it serve any lavish foods, which indirectly reduces the costs and makes the consumers feel comfortable.

Technological Factors The increasing use of the Internet has provided many opportunities to airlines. For e. g. Air Sahara has introduced a service, through the internet wherein the unoccupied seats are auctioned one week prior to the departure. Air India also provides many internet based services

to its customer such as online ticket booking, updated flight information ; handling of customer complaints.

USTDA (US trade ; development association) is funding a feasibility study and workshops for the Airports Authority of India as part of a long-term effort to promote Indian aviation infrastructure. The Authority is developing modern communication, navigation, surveillance, and air traffic management systems for India's aviation sector that will help the country meet the expected growth and demand for air passenger and cargo service over the next decade.

A proposal for restructuring the existing airports at Delhi, Mumbai, Chennai and Kolkata through long-term lease to make them world class is under consideration. This will help in attracting investments in improving the infrastructure and services at these airports. Setting up of new international airports at Bangalore, Hyderabad and Goa with private sector participation is also envisaged.

A good example of the impact of technology would be that of AAI, wherein with the help of technology it has converted its obsolete and unused hangars into profit centers.

AAI is now leasing these hangars to international airlines and is earning huge profits out of it. AAI has also tried to utilize space that was previously wasted installing a lamination machine to laminate the luggage of travelers. This activity earns AAI a lot of revenue. These technological changes in the environment have an impact on Air India as well. Better airport

infrastructure, means better handling of airplanes, which can help reduce maintenance cost.

It also facilitates more flights to such destinations. Legal Factors

Prior to 1953, there were 9 private airlines in operation with too many surplus aircraft and the airline industry was sick. There was no competitive environment in the monopolized aviation market. The air transportation operations in India are governed under The Aircraft Act, 1934, The Aircraft Rules, 1937, The Air Corporation Act, 1953, The Air Corporation Act, 1955, The International Airports Authority Act, 1971, The Carriage by Air Act, 1972, The Tokyo Convention Act, 1978, The Anti-Hijacking Act, 1982, The National Airports Authority Act, 1985, The Airports Authority of India Act, 1994, The Air Corporations (Transfer of Undertakings and Repeal) Act, 1994. The air transportation services in India are controlled by DGCA, operating under Ministry of Civil Aviation (MCA). DGCA, under the provisions of Rule 134 of the Aircraft Rules, 1937, grants permission to persons to operate an air transport service to, within and from India.

The DGCA rules governing issuance of permits for air transport services are prescribed under: (i) Scheduled Air Transport Services (Passenger) (Civil Aviation Requirements Section 3 Series 'C' Part II); (ii) Non-Scheduled Air Transport Services (Passenger) (Civil Aviation Requirements Section 3 Series 'C' Part III); (iii) Air Transport Services (Cargo) (Civil Aviation Requirements Section 3 Series 'C' Part IV); Non-Scheduled Air Transport Services (Charter Operation) (Civil Aviation Requirements Section 3 Series 'C' Part V).

The permits issued by DGCA are equivalent to the Air Operator's Certificate (AOC) required to be granted by ICAO member States in accordance with the provisions stated in Annex 6 of the rules. Permits for any other special type of operation can be granted subject to the applicant showing satisfactory capability to undertake the type of operations. Environmental Factors India is one of the fastest growing aviation markets in the world.

With the liberalization of the Indian aviation sector, the industry had witnessed a transformation with the entry of the privately owned full service airlines and low cost carriers. As of May 2006, private carriers accounted for around 75% share of the domestic aviation market.

The sector has also seen a significant increase in number of domestic air travel passengers.

Some of the factors that have resulted in higher demand for air transport in India include the growing middle class and its purchasing power, low airfares offered by low cost carriers, the growth of the tourism industry in India, increasing outbound travel from India, and the overall economic growth of India. In addition to these factors, the emphasis on modernization of non-metro airports, fleet expansion by airlines, service expansion by state owned carriers, development of the maintenance, repair and overhaul (MRO) industry in India, opening up of new international routes by the Indian government, establishment of new airports and renovation and restructuring of the existing airports have added to the growth of the industry. However, in mid-2006, many airline operators announced large losses. Analysts opined that a combination of factors such as high aviation turbine fuel (ATF) prices,

rising labor costs and shortage of skilled labor, rapid fleet expansion, and intense price competition among the players were responsible for the losses in this sector.

The problem was also compounded by new players entering the industry even before the existing players could stabilize their operations.

It was estimated that the industry as a whole could face losses of over Rs. 22 billion in 2006-07. Some experts expect the industry to consolidate in the near future. The government also was keen to restrict the losses in this sector by closer scrutiny of the business plans of new entrants, conducting quarterly financial audits, etc.