

Our prices are too high

INTERVIEW/RONO DUTTA

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ANJULI BHARGAVA

RONO DUTTA President, Air Sahara

Why would the head of a major US corporation decide to work for an Indian company that is still struggling to find its feet? Because of the 'India bug', says Rono Dutta, former president of United Airlines, one of the largest carriers in the US, and now president of Air Sahara. Once he caught the bug, it was a matter of choosing the airline that was best 'fit' for him.

Sahara suits Dutta for two reasons. First, if he succeeds, he will change the industry perception about the airline. For years rivals alleged that Sahara was a frivolous player. It charged low prices - and thereby 'spoilt' the market - as it could afford not to make a successful business of flying (Air Sahara is a tiny part of the Sahara group's overall interests). Dutta says the group is in the business to make money, and Sahara will be a major high-quality, low-cost flier in India. (It remains to be seen whether he can fit in with the Sahara airline work culture, thanks to which many professional managers have left the firm in the past.)

The second and more important reason is that these are exciting times for India's airline industry.

Incumbents like Sahara, Jet and Indian Airlines will soon face some serious competition from low-fare airlines like Air Deccan and Air-India Express. Sahara, which has one-fifth of the domestic air travel market, could lose its low-cost advantage. Dutta, an IIT and Harvard Business School graduate, has worked for 17 years in the US airline industry. This means he was part of that industry when it was going through a churn similar to what is about to happen in India. That's invaluable experience for any Indian airline today.

Dutta has already gone on the offensive. He has launched 'Air Sahara Surprice', a pricing scheme aimed at leisure travellers who normally travel by train.

He spoke to Businessworld's Anjali Bhargava on the airline's plans, and the future of the Indian airline industry. Excerpts.

- How do you see the structure of the Indian aviation industry in the future, going by what's happened globally?

Let's look at the global industry. We have had various kinds of players. There are the traditional full-service, high-cost carriers whose cost is around 11.5 cents per ASM [available seat miles] - that's the unit cost per mile. They offered food, first class, lounges, frequent flier points, etc. Then came the no-frills, low-cost carriers with a cost of around 7.5 cents per ASM - no food, no lounges, no frequent flier points - and they made a lot of money. Given this, the high-cost airlines started bringing their costs down and some of them launched no-frills, low-cost carriers. Unfortunately, most of them failed. Examples of this: British Airways started Go, Air Canada started Tango and United launched 'Shuttle by United'. These ultimately did not work.

Now, we have a new generation - exemplified by JetBlue [Airways] - which is a high-quality, low-cost airline. Their [the new generation's] cost is around 7.5 cents but their product is better than [that of] the full-service airlines. That I firmly believe is the future of aviation. It's not to have two or three different types - a mother airline which is full service and a low-cost carrier under it. We're not looking at those models. And that [the JetBlue model] is the model we [Sahara] will follow.

Secondly, all the successful international carriers first consolidated their domestic positions. There have been no examples of international carriers that have done well without a strong domestic position. In fact, we have seen the reverse - TWA and PanAm [were] very successful international carriers with no domestic network, and ultimately they failed.

So, for Sahara, we want to consolidate our domestic position. And from that point of strength, we want to

launch internationally and we want to be a high-quality, low-cost carrier. That is our goal.

- Going by what you say, the chances of Air-India Express - Air-India's low-cost carrier - succeeding are very low...

I wouldn't necessarily say that. But I will say from my experience that trying to run a full-service, high-cost carrier and a no-frills, low-cost carrier [United Airlines' Ted] has not worked - there's certainly not much one can point to in terms of historical successes here. So I am sceptical, yes.

- Will it be possible for India to sustain so many domestic players who operate internationally?

We have a large domestic market - that's one of our strengths. We must leverage this. If you look at Singapore [Airlines] or Emirates [Airline], they have no domestic market to speak of. So out of Singapore or Dubai, only one airline can succeed. A good comparison for us is China or the US. In the US, there are eight major airlines. In China, there are now four and they are all flying internationally. So, there's no reason why India can't have 3-4 major carriers flying out. Airlines are an important part of the infrastructure of a nation and we must ensure that the sector grows. In India, I expect to see one of the fastest-growing markets in the world (with the economy growing and fares coming down) and four players is absolutely sustainable.

- But in India affordability will be a major issue...

Cellphones are a good example. People used to say people cannot afford cellphones. It's all a matter of internal growth, and pricing and cost structures. At lower fares, we will see explosive growth. We [Sahara] have taken action today to address that. It's a self-fulfilling prophecy - if you say it's for the elite, costs are too high, fares are too high - well, we need to change that.

- Your competitors claim you 'spoil' the market by pricing too low...

Meanwhile...

THE much anticipated farewar has broken out across Indian skies. A little before Rono

Dutta announced the Air Sahara 'surprice' package, Indian Airlines (IA) extended a host of promotional fares and Air Deccan came up with a much-misunderstood offer: the Rs 500 Mumbai-Delhi ticket.

The Air Sahara surprice is a 30-day advance return fare that's 36 per cent less than the 30-day advance apex fare. IA's 'metro non-metro Scheme' lets travellers pay Rs 1,000 for the non-metro leg of a flight, if it includes a metro leg. Air Deccan will shift to dynamic pricing next week where, the earlier you book a ticket, the cheaper the fare (Rs 500- 8,000 for a Bangalore-Delhi ticket).

In fact, in the last few months, IA has quietly introduced discounts under various heads: round-trip fares, weekend fares, special fares, etc. And though, after the recent 10 per cent fare hike in June, its one-way Mumbai-Delhi fare is up from Rs 6,575 to Rs 7,215, it has a promotional fare of Rs 6,445 till 30 September. (Jet has a similar offer.)

Some experts say the price cuts are a reaction to a normal, seasonal fall in passenger traffic (schools reopening, monsoons, etc.). In fact, demand can drop by 15 per cent in July and August. "Even if we sell 8-10 seats for Rs 1,000, it adds straight to our bottomline," says an IA director.

But others say the fall is due to competitive pressure. Though they feel, Air Deccan, with a couple of flights a day, won't be an immediate threat. "If Sahara leads a backlash, other airlines will be sucked into a fare war," says Kapil Kaul, senior vice-president (Indian sub-continent), Centre for Asia Pacific Aviation. There are rumours that Sahara will offer walk-in fares that are 10-15 per cent more than those of Air Deccan, though Dutta does not mention any such plan yet.

The battle has just begun.

Ranju Sarkar

And my answer to that is our prices are too high. Why is flying in India considered elitist? Because prices are too high. It would be quite unreasonable to say that Southwest [Airlines] has spoiled the US market. But they grew the market so much. JetBlue does not spoil the market by reducing fares. We are doing the right thing for the customer.

There is a time value to every decision. If you don't make up your mind early, we hold a seat for you. We could probably fill the whole airplane with apex fares - of course, we may not make too much money, but we could. What we say is, let's keep some seats for those who will make up their minds last minute. Now, if you don't show up, that seat goes empty. You pay a price for that.

This issue has been studied time and again. We shouldn't think that business class travellers are subsidizing the leisure travellers because the latter have fewer demands on the airline - they make up their mind early, make sure the airline has high load factors, don't demand a lounge for working, and schedule times that are perfect.

- Don't you see a threat to Sahara, Jet and Indian airlines from low-cost carriers like Air Deccan and so on?

I am all for opening up the domestic market. They should allow as many airlines as wish to operate. We will compete and we will compete vigorously. So, is more competition a threat? No, I think competition is healthy. We have to survive and we will fight to do so. It will ultimately be good for the customer.

There has to be healthy oversight by government institutions. Open markets are great. But as we saw with Enron and Worldcom in the US, if there are open markets without healthy oversight, there can be mistakes. Government has to look at safety and capital viability. Using the US DoT [Department of Transportation] and FAA [Federal Aviation Administration] as an example, they encourage new airlines, but they scrutinise them very closely. Safety is a big issue in aviation and regulation is a must.

- Do you think the eventual answer for Indian Airlines and Air-India lies in privatisation?

I believe most industries should be privatised. Virtually all the European airlines - Lufthansa, British Airways, Air France - were government-owned and all have been privatised. Even within India, in other industries, there are enough examples of companies working better when privatised. So, we fully support privatisation.

- What kind of aviation policy do you want Praful Patel to announce by the end of the year to ensure such growth?

Around 35-40 per cent of our costs at present are government imposed. Internationally, this figure is around 15-20 per cent. Take the recent tax on leasing. Depending on where you lease from, this will hike costs by 15-40 per cent. If the government forces us to go to certain countries, our leasing costs will go up. Suddenly, that country will be deluged with requests from Indian airlines to lease planes. We want government-imposed costs to be lowered.

Then, there's the whole issue of liberalisation. Throughout the world, what we find is that financial centres are first aviation centres - Zurich versus Frankfurt is a great example. Zurich was a huge financial centre but with the decline of Swissair, Zurich's importance has declined. With the growth of Lufthansa, Frankfurt's importance has grown. If you look at this entire region - between London and Singapore - there is no major financial centre. Naturally, this position belongs to Mumbai. But if we keep giving away our rights and don't focus now on the sector, Mumbai will not be the centre - it will be Dubai or Singapore.

We need to have a sensible policy. Take, for instance, Singapore Airlines. You're giving me access to Singapore; I'll give you access to Mumbai. Singapore has access to all the internal markets - Hyderabad, Ahmedabad... they're talking of Amritsar. Emirates has access to 12-15 points in India. If the US says you can have access to seven cities, we give access to seven cities. If the UK government says I have two carriers coming in here and they can land in Delhi anytime, we should have equal access to Heathrow and be able to land at anytime. To say, you can come to the UK, but you can't land at Heathrow and have to go to Gatwick, is not fair access. We could also restrict slots, but we don't. We have to ensure that we don't give unreasonable access to other carriers. If you compare with Japan, the UK, China - they are all more restrictive and with good reason. To promote domestic carriers and domestic jobs. I think India is giving it all away.

Finally, we have to have a strong domestic carrier with its hub in Mumbai that flies internationally. For this, the domestic private carriers have to be given access to international markets.

- What about airports?

A critical issue. Sure, we can buy more airplanes and put them in the air. How do you take all these people through the terminals? Not enough gates, not enough counter space, not enough parking bays.

The airports are awful. Awful. You land in Delhi and Mumbai, and it gives you such a poor impression of India. We see this huge growth in India; we want to take advantage of it, but certainly the airport experience in India is miserable.

- Do you think they [the government] must allow foreign airlines to invest in private airlines like Jet, Sahara, etc.?

I don't think that's an issue. The domestic equity markets are reasonably strong. But we are not opposed to it. Our issue is not with the capital structure but the route structure. This weakens the domestic players.

- Where all do you want to fly to?

We are flying to Colombo as you know. We are launching Kathmandu on 4 September. We are looking at Dhaka in the future. We certainly want to fly to the Asean countries - Singapore and Thailand - and the Middle East. We want to fly to London and the US. We'd like to be in most markets. We'd like the government to liberalise on this

front. Give the foreign carriers some access but not this open access.

- What kind of capacity growth are you planning for the rest of this year?

It will depend on what kind of access the government gives us and how quickly. We have Boeing 737-700s and 800s that can do Asean countries (Thailand, Singapore), Hong Kong, etc. Clearly, they cannot do Europe. We are currently negotiating for additional 737-700s and 737-800s on lease.

- Sahara has never been considered a serious player in the Indian aviation market. Most people see aviation as marginal to the group's overall interests. Are we likely to see that change?

I think that changed last week [laughs]. From all the discussions I have had with Lucknow, that's not true. They are very serious about growing the airline and that's begun to show in the numbers. It had a share of around 4-6 per cent and that's now 18 per cent.

- So, will you aim for No. 1?

We want to be very safe, very reliable, have a good route and cost structure and then we'll go where the market takes us. Aiming for the No. 1 position at the expense of profitability makes no sense. We don't have a growth goal. We have route structure and cost goals.