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How Joyful Winds Turned to Turbulent Storm - Downfall of Jet Airways

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***Abstract* – After 25 years of soaring and raising standards of flying in domestic skies, India's premium full service airline, Jet Airways completely halted it's operations on 17 April, 2019. Founded in 1993 Jet Airways truly changed the flying experience and turned out to be first successful full service airline of the country. The airline enjoyed huge market share and strengthen it's brand in early years of it's commencement but the Indian environment is not conducive for the aviation industry. The industry faced certain challenges and with the rise in competition the situation got worse. This is not the first downfall of airline that the country has witnessed. Another full service flamboyant carrier, Kingfisher Airlines was also drowned in the similar fashion as Jet Airways in 2012. Two of India's full service international airlines completely got shut in a decade raises questions on the scenario in which Indian airlines are operating, challenges the industry is facing and what measures government is taking to protect aviation industry. India, the second most populous country, is fastest growing aviation market and is currently world's fourth biggest aviation market which shows the potential to jump to third spot in the coming years. Despite the fact airlines struggle to operate and failed to earn healthy profits essential to sustain in the market. Jet is not the only example of how an airline couldn't sustain in the market, earlier Kingfisher also faced its doomsday back in 2012 and national carrier Air India is also at the mercy of the government where every year it sanctions special funds to keep airline flying. This sheds light that full service carriers have had faced troubles and still the airlines are operating on thin margins. New business model launched by budget carriers Indigo and Spicejet have made life even more difficult for full service carriers and people's price sensitive nature and habits gave low cost carriers an edge over the full service airlines.**

***Keywords*– Question and answer systems, Social networks, Information search.**

I. INTRODUCATION

Founded in 1993 in Mumbai, India by Naresh Goyal, Jet Airways was the first private full service airline of India which focused on providing excellence in service quality to the passengers as against poor services offered by state owned Indian Airlines (at that time). The airline changed the way of flying by striving to improve it's services and aims to provide a joyful experience of flying. Soon after it's launch the airline had second highest market share (in domestic market) of around 20%. The airline began it's operations with four Boeing 737 aircrafts and with it's success the company expanded it's fleet and placed order for more aircrafts and expanded it's operations. Within 7 years after it's launch the fleet grew to 30 aircrafts and were operating to 37 destinations in the country. In 2004 Jet launched it's first international flight to Colombo.

II. GROWTH AND EXPANSION

Jet continued to fly high on the back of customer satisfaction and quality of their service. Jet kept on placing orders for more aircrafts to expand it's network both domestic and international. Where other private airlines in the country in early 2000s struggled to sustain in the market, Jet was flourishing. As a part of it's expansion plan, Jet decided to acquire loss making and bleeding Air Sahara for a whooping amount of US$ 500 million in all cash deal. The deal was completed in 2007 and later Air Sahara was renamed as JetLite which followed a low cost business model. JetLite was no frill flight unlike it's parent brand Jet Airways. The decision was made in the wake of a new business model brought by Indigo Airlines in 2006.

Soon after JetLite's launch Jet Airways launch another low cost and no frill carrier as JetKonnect which was again a subsidiary of Jet Airways. Jet aimed to capture domestic market and eyed on expanding it's international network. Jet started it's flight operations to South east Asian countries, Middle East, Europe and to North America as well. Jet's arch rival Kingfisher Airlines which was going through turbulent time in 2008 decided to join hands with Jet Airways and signed a codeshare agreement on select routes. However, soon Kingfisher went bankrupt and had to exit the market and Jet continued to enjoy the market share of premier category of airlines. In 2013, Abu Dhabi based Etihad Airways bought 24% stake in Jet which allowed the the later to expand it's operations internationally and having more codeshare agreements with different foreign carriers helping in rationalising routes and having more overseas hubs for it's flights.

III. INDIAN AVIATION SECTOR

Scenario of Indian Aviation industry is not very conducive for the airline companies. Despite being the fastest growing aviation market, the external environment restricts airlines to enjoy substantial profits. Government has taken steps to increase air connectivity in tier 2 and tier 3 cities and developed essential infrastructure which resulted in increase in number of air travellers. However in a country of 1.3 billion population huge proportion comprises of middle class people who are price sensitive and are ready to fly without enjoying certain privileges which premium airlines offer at a higher ticket prices.

Today the budget carriers are comparatively doing well than full service airlines as they have huge market share and their operating costs remain low as they need not to spend on extra facilities like airport lounges, business class privileges and meals. Another barrier which curbs the profits of the airlines is cost of airline turbine fuel. The fuel is imported from middle east and buying of fuel is done in US dollars. With the exchange rate fluctuations and depleting Indian Rupee against US dollar airlines have to spend fortune for the fuel and it consumes primary chunk of their operating costs. Jet airways has to ground it's aircrafts in early 2019 since the fuel suppliers stopped providing fuel due to default in payments of fuel supplied in past. Fuel is pre requisite component for any airlines. The story doesn't end here.

Airlines have to pay high taxes on aviation fuel. Government has surged the tax rates as this aviation fuel causes damage to the environment. Apart from this tax there are other taxes and rents which airlines have to pay which together contributes in huge costs. Major Indian airports are now privatised and which is why the airport rents are higher. With the increase in air traffic many private players stepped in the industry leading to increase in competition. This cut throat competition forces the airlines to keep their prices low and adjust their prices with respect to what other players are doing. In such a scenario full service carriers find difficult to cover their costs of additional services they are offering as people in India mostly see price as the most important determinant. In all these external circumstances the key to remain alive is to keeping operating costs low and focus on expanding market share. Jet being a premium airline has to borne high costs and had second largest market share of around 16% which was not enough to keep it soaring.

IV. MISMANAGEMENT

With external environment not suitable for airlines companies need to keep themselves healthy internally so as to remain in existence. In case of Jet Airways the management had internal issues, couple of bad decisions taken which put the survival of the company under threat. Founder, Mr. Naresh Goyal had expertise in aviation industry and he ran the company successfully but with the increase in competition and environment became more challenging he remain adamant on his position and refused to get on board professionals and top executives to manage and run the company.

After the triumphant take-off of the company and soaring high during early 2000s the turbulent times started. The very first wrong investment decision was made by management which was acquisition of bleeding Air Sahara in all cash deal. The assumed benefits that company thought of were far less than the money paid by the company. Jet Airways introduced JetLite and JetKonnect as their low cost carriers but the move failed miserably as brand conflict arose in the minds of customers and clarity in business models was not there. Both these no frill carriers were in contrast with the parent brand and company couldn't manage both models simultaneously with effectiveness.

After investing so much and not getting returns as expected the company faced internal crises when it had to lay off some 1900 employees. With the criticism and backlash faced and government intervention fired employees were given jobs again later. Financial decisions were taken without doing proper due diligence and as a result company wasted a fortune on loss making Air Sahara. Jet Airways continued to spend more than it's earnings. Company kept on increasing their fleet by leasing and placing orders for new aircrafts without caring about it's thin margins.

Company sourced huge debts from banks and financial institutions and was slowly going the Kingfisher's way. The profits soon turned to losses and Jet's survival became questionable. Jet's valued partner Etihad Airways which was holding 24% stake offered to increase it's stake to 49% only on the condition that Naresh Goyal should step down but the later refused the proposal and this was another paradigm of bureaucratic nature of the founder. Low cost carrier Indigo Airlines emerged and took away 45% market share which made a dent to the financials and operations of other airlines. Jet Airways slowly move towards debt trap. Below is the graph showing mounting debt to lessors alone. Apart from this airline had huge loans from banks.and owed huge amount to it's suppliers as well.

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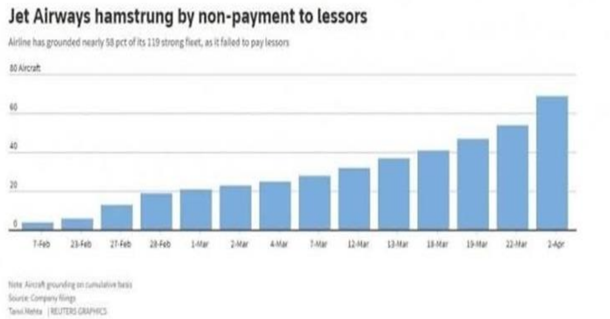

Source:

V. CRASH LANDING AND AFTERMATHS

Finding it difficult to endure competition and high cost environment never allowed financials of the company to breathe and show some signs of profitability of the company. For along time Jet survived on the back of loans it took but towards 2018 the accumulated loans amounted to around Rs.9000 crores. Along with this company started reporting huge losses for the financial year 2017-18 and 2018-19 which created panic in the market and the airline's survival became talk of the town. To cut it's operating costs Jet airways stopped providing free meals on board to it's economy class passengers and hiked charges of excess check in baggage. Following this move, Jet started losing it's customers.

Changing of its full service model to no frill, passengers who love full service carriers shifted to other full service carriers - Air India and Vistara and rest shifted to other low cost carriers. Cash strapped Jet's condition became worse and the company was unable to pay salaries to it's pilots, crew and ground staff. The airline defaulted on payment of salaries for around 4 months and many times pilots refused to fly planes before departure demanding company to first clear their pending dues. Passengers were unsure if Jet airways planes would actually fly as protests used to happen and crew refused to get on board before the departure time and people stopped booking on Jet Airways. Jet not only defaulted on payment to it's employees but also to suppliers and airports. Company ran out of cash to pay to meal providers and fuel suppliers.

As a result Jet has to ground its planes one by one and when it stopped in services in May 2019 it operated only 5 aircrafts vis a vis 123 in December 2018. Fuel suppliers stopped supplying fuel to the airline and lessors and banks demanded their money back. All international operations were halted too and on the fateful night of 17 April, 2019 the last flight was operated from Amritsar to Mumbai and the airline was fully grounded. The worst hit were employees who were not given outstanding salaries for around 3 months and they became jobless. 20,000 employees became unemployed with the closure of airline and more than 60,000 people were indirectly affected. Hundreds of employees and Jet's pilot union, National Aviators Guild (NAG) gathered in New Delhi outside ministry of civil aviation pleading to government to help them and release funds that would allow Jet airways fly again and they'll get their jobs back. Many employees expressed their plight on news channels and vlogs on how they are finding it extremely difficult to support their and their family's livelihood. Competitor airlines hired unemployed staff but accommodating all 20,000 people is not possible. Empty slots of Jet Airways were taken by other airlines at all airports and their market share also increased. Various parties showed interest in buying Jet airways after it went insolvent but none executed the deal and Jet's revival seems a distant thing now.

VI. RECOMMENDATIONS & CONCLUSION

The core of the problem of underperforming of aviation sector in India is high cost environment and purchase behaviour of people which is price sensitivity. Government in past few years has taken measures to improve connectivity and under UDAAN scheme many new airports in tier 2 and tier 3 cities were established. Tax slabs on aviation fuel should be lower down to allow some breathing to the income statement of the airlines. Recent development happened when Spicejet successfully operated it's flight with 25% biogas fuel in one engine along with aviation fuel. In future this could be an environment friendly as well as a cost saving technique. Airlines need to adopt new fuel efficient aircraft models by Boeing and Airbus. Being operating in high price sensitive environment and severe competition it is important to keep the operating costs under control and focus on the customer behaviour.

Jet airways has became a case study of how a company, once at the driver seat of aviation industry of a country turned to rags. The airline has successfully done the branding of classifying itself as the premium airline of India. Jet has fleet of airbus and boeing planes, business model is there, huge workforce is there but still no bidders came to rescue. Some have shown interest but slowly everybody backed out. Now the question in this management's fault for the breakdown of the airline or condition of Indian Aviation market which apparently seems to be so unfavourable for premium airlines? With such huge prospect it is an opportunity for the airline companies but along side threats also exist.

Government's role will be essential to protect the interests of passengers and airline companies in the best way. To conclude the lenders have taken Jet Airways to the the bankruptcy court and taking our lot of experiences with them. Pity but I guess it was inevitable.

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