

Airline Mergers Is Bad News For Consumers

Consolidation ensures competition, better service and accountability

M Thiagarajan

CONSOLIDATION is a sign of maturity in any industry. It is merely a reflection of certain benchmarks in efficiency and productivity. Which means airlines that do not and cannot live up to certain standards at various levels of operation gravitate towards bigger and more established entities because of larger critical mass. But as the industry consolidates, we can see newer levels of competition, better service levels and higher levels of accountability.

Today if you look at the (Indian) airline industry, we still have a few 'no-frills' airlines at the bottom of the pyramid. These are operating because of the traffic volume they are able to attract due to their lower pricing structure.

However, given that costs are the same for any airline, whatever category they go by, it would become critical at some point in time that cost inefficiencies and mismatch in productivity versus deployment would start emerging.

There is nothing called low-cost operations. We can only have efficiency in operations by controlling costs to a

level that would result in optimum utilisation and better yields.

Again, consolidation will be a great beneficial factor to the air traveller. First, pricing will be homogeneous across sectors that would enable airlines to offer a certain minimum level of service.

Second, consolidation would usher in better connectivity not only among the metros, but also among class II & III cities. It would also ensure convenience for the air traveller because of this seamless connectivity.

Third, it would help the airline industry streamline costs by engaging the available facilities and resources at various points. It would also help the merging entities to have a broader view of the operations, such as expansion and customer orientation. It would give scope to operate at different levels making use of the equity a particular airline enjoys in the market, which could become very useful in customer retention.

A powerful brand arising out of consolidation would always be looked upon as an entity that could deliver better values in terms of services and reliability.

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As consolidation sweeps the sky, the power of choice runs dry. As big fish eat smaller rivals, the distinction between no-frills carriers and full-service airlines gets blurred too. Airline mergers is the sign of a maturing industry, says one school. Others demur.

Mergers, though right in current context, are a short-term fix

Kapil Kaul

INDIAN airlines have a history of unprofitability (except Jet) and they continue to suffer from inefficiencies. There are serious systemic profitability problems and we haven't been able to address the root causes. The recent consolidation was necessary against a very hostile economic and fiscal environment. I believe in the current context, the value of this consolidation is undisputed. But this is, at best, a short-term fix for the industry's problems.

The most important benefit of the consolidation is to ensure shift in power from the buyer to the supplier. Airlines had lost pricing power due to intense competition and needed a law regime that reflected their costs. I think a stable and healthier airline industry is good for consumers in the long term as that would ensure consistency and consistent expansion for service across markets within India. It is vital for India's economy that air connectivity continues to develop and we require a profitable airline industry to achieve this objective. Airline viability is critical for the entire air transport system in India and consolidation is a step in the direction.

Benefits of synergy will lead to a more competitive cost position for all the three airline groups and this will be leveraged in the form of lower fares for the consumer. I believe low fares will continue, though a marginal correction will be necessary in the short term till the large strategic benefits are achieved. However, I don't see fares rising by more than Rs 200-300 in the LCC category.

All the three airline groups are working aggressively and developing more robust business plans. The merged Air India-Indian has the potential to be a major global carrier provided the marriage is completed quickly. However, there is a large section of Indian employees that feels the merger is a hostile takeover by Air India and are mounting resentment against it. People issues are most critical and take years to fully resolve after a merger. Jet Airways and JetLite are working towards launch or relaunch of JetLite. Massive restructuring is on at JetLite and we are soon going to see a new budget carrier in India.

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