Air Deccan Spreading Its Wings

The low cost model of Air Deccan is here to remain. For the airline, penetration in deep pockets of the country is more important than the sale of cheap tickets. After revolutionizing air travel in India with low airfare, **Air Deccan Chief Captain Gopinath** now eyes on low-cost airports. The man, who gave wings to his vision in tête-à-tête with Masooma Jariwala, talks about his plans to strengthen the airline and Indian aviation. Excerpts:

Air Deccan-India’s pioneer low cost airline started with the vision of ‘empowering every Indian to fly’. The airline to his kitty has built the country’s largest airline network connecting 65 cities and has demystified air travel in India with a fleet of 45 aircraft flying more than 350 flights a day -all this in just a span of three and a half years. Fondly known as Captain Gopi, the Air Deccan chief recognizes the potential and needs of the country’s growing economy- but with a difference.

“The way I am looking at aviation is slightly in departure to the way others are looking at it. I am firmly of the opinion that there is a new country, a new resurgent India. Inspite of all the problems of infrastructure, the Gross Domestic Product (GDP) is growing at 7-8 per cent. In this, new India has to take place and integrate to growth. If you want investment and reforms go to the small towns, then along with railways, roads and Internet, aviation must go there.”

For Gopinath, the airline need not have cheap fares between Mumbai to Delhi, but “cheap fares between large towns to small towns. Accessibility and affordability should go hand in hand. My vision is every Indian must fly. Out of 1.1 billion people about 700-800 million people are in the small towns and they must become part of the economic mainstream. Their lifestyle has to change. Their way of doing business has to change and therefore I evolved a different strategy wherein we brought small aircraft towards the small towns and large aircraft to large towns.”

The captain strongly opines, “to achieve not only equitable growth but to achieve a growth year-on-year for airlines one needs to make a billion people fly eventually.”
Not limiting the reach to the top creamy layer, for Gopinath the entire country is his market. “What Air Deccan did was not only revolutionized prices but also changed the way one looked at the market. It is a retail market and it (air tickets) should be sold like a retail product where it can be sold anywhere from a grocery store, petrol pump, postal office. People should be able to buy an airline ticket just as they buy a shampoo or soap. And that is what is meant by penetration.”

But for the airline aiming for a market of one billion people, the progress has not been easy. “This growth has not been without difficulty, without challenges in terms of internal problems in terms of dealing with the government, dealing with the regulatory bodies, dealing with infrastructure. All these are the challenges, but as an entrepreneur, I see that one has to accept all these challenges and work for the government and help become the change agent. You can’t simply be outside the society and criticize the government. You have to be part of the society, part of the government and become the change agent.”

“And that’s how we have grown from one aircraft to 45 aircraft which includes 21 Airbus and 24 ATR. We are not only the second largest airline with 21 per cent market share but we are also the largest route network. We are going to 65 airports everyday as against 46 of Jet Airways and 43 of Indian Airlines. This year we will be flying about 9 million passangers. What took India 53 years, we have done it in three and a half years. It is only because it is the new India that is flying”.

Gopinath recently took a visionary step by expand the reach of common men for purchasing the airline ticket. Air Deccan recently tied up with the Internet enabled Indian Postal Department so that people living in small towns could buy tickets without any hitch.

“The tie up will give a trigger, an impetus, create an awareness to the aspirations of the people living in small towns. Initially we have started the sale of tickets through the postal department in Karnataka state. We are only planting a seed today and it may take another 3-5 years (for its acceptability). Just like what happened in the market of cell phones and television. It is very symbolic. Nobody was even aware. We are addressing that India, which did not fly before.”

When asked about the per centage growth Air Deccan expects through this tie-up (with the postal department) Gopinath is quick in his reponse, “The growth is already happening. It is just giving a trigger, a penetration to that by going deep into the countryside, deep into the small towns because it is not enough to have cheap tickets, but flights must go to the nearest town. Secondly, they must be able to buy tickets because they do not have Internet or travel agents. For us to establish 400 travel agents will cost Rs.100 crores. This was not worth doing because distribution cost will be very high. But since post offices are already there (around 10,000 in Karnataka- out of which 500 are already internet enabled) a villager or person residing a small town can go to a post office in his town, pay cash and buy an air ticket. It only is going to give a Galvanizing Electrifying atmosphere there.”

“I don’t think so anybody would have imagined five years ago or 10 years ago the scenario would change to this extent. For example to get a land line one had to wait for five years in Bangalore or had to go to a Member of Parliament to get a landline. Nobody ever imagined that a labourer, farmer an autorickshaw driver or a vegetable vendor could today buy a cellphone. The same thing applies here. It is just a question of time. It will take another 2-5 years for a society to accept a product as a life style. It takes 5-10 years for people to accept a product as a life style. It has happened in television, cell phone, motorcycle and scooters, it will happen in air tickets.”

After revolutionizing air travel in the county, Gopinath is now looking at low cost airports. And with the Indian Government recently unveiling the regional airlines concept to boost connectivity, airport development in small town is certainly going to get a boost. “What I have whistled in the government was there is no point in government trying to build huge airports once in ten years. I said now there is money in the private sector hands, ideas are there, the government must only be the facilitator, create the right policy framework. Today even the district headquarters have very strong potential for real estate. Airports by themselves will not make money. Along with the airports one needs to build technology parks, so that investment will go to those small district headquarters and the money invested in the airport can be recovered from the Real Estate. Real Estate is useless without an airport and airport is useless unless somebody like Air Deccan flies there. So we said that the airlines, the builders and the real estate developers must get together. Government has to only enable and facilitate and can take 26 per cent by giving the land.”

Gopinath firmly opined that building
low cost airports are very essential by putting emphasis on the runway and instruments, rather than on huge terminal building. “I think the trigger has happened. The Karnataka government has already put expression of interest for five airports and people have already bid for that. These five airports are Hassan, Bijapur, Gulbarga, Shimonga and Karwar. Air Deccan has already put expression of interest for these five airports.”

According to Gopinath airports can be built at much lower cost in compared to the amount spent by the government. Many airports built by government cost around Rs. 50-100 crores. But we can build a good airport for a much smaller amount and it is possible to build low cost airports that will have basic amenities. For around one flight a day one need not spend and waste money. Instead of spending huge money in one airport you can build five airports.”

On ways of generating revenue through these (low cost) airports Gopinath said, “Along with the airport you have to build an industrial park, a technology park and the sale of technology park will give you money for the airport. You will recover the investment of the airport from the real estate that you build along with the airport. A technology park is useless without an airport; airport themselves will not make money, but airport with that combination will make money.”

The airline is also planning to come in a big way in the Cargo sector. Gopinath did hint on this but refrain himself from getting into the details. The country expects around 500 cargo flights within the next 10-15 years. “We are looking at that (cargo). We are still in the early stage and I think I should be able to talk to you in another two months time. We have taken a decision and plans are still being formulated.”

On relaxation of government policy permitting airlines fly international route only after five years of operation, Gopinath said, “The minister has said that they would review it (policy) so that larger number of people can travel abroad. I hope the government to do it. Lot of Low cost airlines from abroad are traveling to India so why can’t they (government) allow us to travel abroad. If Indian’s are traveling by foreign low cost carriers; Indians must also travel by Indian low cost carriers. If foreign airlines can carry Indians, why cannot Indian airlines can carry Indians?” he questioned.

The powerful route network enjoyed by the airline also attracted full service carrier and country’s premier airline Kingfisher to invest 26 per cent stake in Air Deccan. Gopinath hopes that the 26 per cent stake of Kingfisher in Air Deccan will help the airline in making a better product. “We will share a lot of resources, lot of knowledge and lot of people and this will only bring out a better product at customer’s end. We will have better product in terms of on time performance, no flight cancellation, if the flights are delayed we can put the passengers on each other’s flight, but most important at the back end we have got 100 per cent same aircraft, same engine, same inventory, lot of equipment at the airport, generators, buses, engines, spare parts-all can be shared.”

Immediately after acquiring 26 per cent stake in Air Deccan Vijay Mallya of Kingfisher announced that Air Deccan airfare will increase by around Rs.500-600. With rumours on Kingfisher ruling the roost with this stake, Gopinath clarified, “Our model will continue to be a low cost model. There are lot of airports where I am going and he (Vijay Mallya of Kingfisher) is also going and he has got equipment and even I have got equipment. So lot of these resources can be shared and our cost will come down dramatically. It will be huge cost saving.”

On Kingfisher having an option of an open public offer of 20 per cent stake, Gopinath said, “That will be through public offer where they pay money to their shareholders and that money will not come into the company.”

On plans of the airline to increase the airfare, Gopinath said, “It is market dynamics. All airlines are loosing money and one needs to be in profit. There was temporary panic in prices and excess capacity. All this is causing loss and I think it is in the interest of the customers that Air Deccan is profitable because if it goes bankrupt that it will again have to hold monopoly. To that extent about Rs.500-600 may go up in some sectors. But customers should be happy. Because right now people are getting a Bangalore-Delhi at around Rs. 4000 which will go up to Rs. 4700- 4900 or for a Rs.5000 ticket will go up to Rs. 5700. But four years ago Bangalore-Delhi airfare was around Rs.12,000. Even today after an increase in airfare by Rs. 600-700 it will cost around Rs. 4000-5000 which is still one half of what was four years back.”

When asked about how much revenue does the airline expect with this modest increase, Gopinath opined, “It is all a function of pricing and load factor. We (now) need to be in profit. We are not in profit by a shortage of about Rs.500-600 and we have to get that. And we will do whatever it takes us to do. I think in 2008 we hope to be in profit. We cannot make a commitment but I am sure we will get there. It is a strong model; it is a robust business model.”

Meanwhile, to improve on the down time of the aircraft, operational efficiency and delayed departures-some major complaints against the airline- the airline has decided to build a fleet of entirely new aircraft by progressively returning the older ATR aircraft - the 42-320 and 42-500 -because of operational concerns. The airline recently returned two old 48 seater ATR 42-320 aircraft. The On Time Performance of the airline in the month of July 2007 was 98.7 per cent.