Sustainability of NACIL – Post Merger Effects

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Abstract: ***Success of well crafted strategy depends on how well it is implemented. This case is an illustration of business strategy and its implementation in management. Therefore the case might be suitable for management students who are currently learning strategic management as subject. Expected learning outcomes of this case would be to help students to develop decision making skills. Students are expected to analyze the consequence of major strategic changes in the management given in the case. It also focuses on implications of business decisions and delay in implementation of the same***.

Keywords: Strategy, Implementation, decision making

1. Introduction

"For the glory days of Air India to return, it would undoubtedly call for some very harsh measures which may not be palatable to all but have to be taken in the long-term interests of the airline," ***M.S. Balakrishnan, former director of finance and board member of Indian Airlines,*** [Jun 28, 2009]**.**

In March 2007 Union Ministry of Civil Aviation approved the merger of Air India, an ailing entity with Indian Airlines based on the recommendation of Accenture IT consulting company. Mr. Vasudevan Thulasidas, CMD of the newly formed National Aviation Company of India Ltd(NACIL) was expecting the benefits to show in the year 2008-'09. Air India came into being in 1946. Started as Tata Airlines by JRD Tata, It was converted into a public company. On August 1, 1953, two autonomous corporations were created. Indian Airlines was formed with the merger of eight domestic airlines to operate domestic services, while Air India International was established to operate the overseas services. On March 8, 1948, Air India International Limited was formed to start Air India's international operations. The Government decided to nationalize air transport. The word 'International' was dropped in 1962. With effect from March 1, 1994, the airline has been functioning as Air India Limited. Air India's worldwide network today covers 44 destinations by operating services with its own aircraft and through code-shared flights. Air India's fleet consists of 38 aircrafts.

2. Rebranding Initiatives

In the year 2005, India witnessed a number of re-branding initiatives, taken by some of the big names in the corporate world. One such noted move was made by Indian Airlines Limited, which changed its name to 'Indian'. The decision was a part of the promotional program, done to revamp the image of the airline. The advertising campaign of Indian airlines was a hit amongst the common masses. The 'turbaned Maharaja' mascot of 'Indian' clicked the minds of the people in the country. The campaign helped 'Indian' to become a household name in the country. Indian transport network spans from Kuwait in the west to Singapore in the east and covers 67 destinations (50 within India and 13 abroad).

3. Merger With Obstacles

In February 2007, the Government of India proposed the plan of Indian's merger with Air India. But the merger was not without its obstacles. The employees of Indian Airlines protested against the merger, worried about the poor financial health of Air India. But in spite of the objections raised the ministry approved the merger. The idea behind Accenture's recommendation was to combine resources like assets, capabilities, infrastructure, I.T and manpower of the two and thus leverage economies of scale. But the plan did not pan out for various reasons. At the time of the merger, Air India was looking to be bailed out by the government. It was hoped that the profit making unit of Indian Airlines would be able to pull it out of trouble. There was also the expectation that the combination would prove itself a winner for the customers. A combined schedule now means better connectivity to the largest international airline in India as well as improved service to various domestic points in India. An improved frequent flier program was in the pipeline along with a dedicated holiday packages website with new offerings to various global destinations. Some economies of scale were achieved. On two accounts they managed to get good savings. One is aircraft insurance. Air India used to get good rates; Indian Airlines' premium used to be much higher.

4. Savings from Merger

In 2008, they managed to transfer the Indian Airlines insurance account at Air India's rate and got good savings. Then the oil contracts with the public sector companies. Air India used to drive good contracts with lower prices, while Indian Airlines used to pay more. They brought it down to Air India's level.From these two accounts, they managed a saving of Rs 50 crore. But the biggest savings from the merger was expected through network integration, information technology integration, improvement in the schedules, the passenger loyalty programme and this was where the picture started to fall apart.

5. Worst Years of NACIL

But the next two years turned out to be one of the worst years for the airline industry in general and NACIL in particular. Global recession, high prices of aviation turbine fuel (ATF), increased competition because of India's open sky policy and declining passenger revenue all added to the woes faced by the industry. On top of this, aircraft utilisation is at a low of nine hours per day while the benchmark is 16 hours. Domestic passengers are not favouring the airline either. In February 2010, Air India carried 6.63 lakh domestic passengers, much less than Kingfisher Airlines at 8.77 lakh and Jet Airways at 7.26 lakh. It accounted for 17.2 per cent of market share and a passenger load of 72 per cent, the lowest among all major carriers.

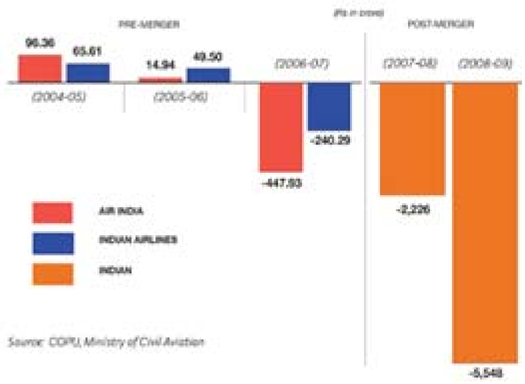

Figure 1: Pre and post-merger profit and loss of the airlines

They say the merger process was to be completed by mid-2009 but till date, NACIL is just half way through. The synergy has worked well in the integration of network, cross-utilization of aircraft fleet, leveraging scale for joint procurement like insurance and fuel, and the opportunity to join the global leading airline network Star Alliance, which offers customers worldwide reach and a smooth travel experience.

But the merger still did not work for the following reasons. One of in 2005, massive fleet expansion plan was approved by Mr.Praful Patel before the merger. The new fleet of 111 aircraft cost around Rs.44, 000 crore. The nature of airline is highly capital intensive and revenue flow is volatile. This acquisition of new fleet tightened their cash flow a lot. “The success of any merger must be assessed by the quality of service provided to its customers, and the new Air India’s inability to provide ‘satisfaction’ is its most significant failure,” said Robey Lal, the former country head of the International Air Transport Association, or Iata. Newly formed merger brought about a steep decline in morale of staffs and poor customer service says the regular customer Mazumdar.

Figure 2: The details of passenger growth recorded by NACIL and private Scheduled airlines (in percentage)in domestic sector from 2005 to 2009

Airline	2005		2006		2007		2008		2009
NACIL	1.03		1.74		17.72		-18.35		15.78
Jet Air	12.34		14.99		-3.52		-9.44		-10.45
Jet Lite	10.32		2.5		11.36		3.64		0.83
AirDeccan	207.16		158.47		24.85		-32.13		
Kingfisher		349.76		87.29		20.05		-6.88	
SpiceJet		229.27		69.49		8.33		33.84	
Paraount			1631.6		149.33		12.3		31.75
Go Air			1710		97.46		-23.73		51.21
Indigo			66.17		46.53		28.59		

Source: Loksabha Questions and Answers

Experts say that the biggest problem is the discontinuity in chief executive. Continuously four chief executives were changed in short span of two years. Mr.Raghu Menon took over as CMD of NACIL after Mr.V.Thulasidas tenure ended in 2008.Due to further loss of Air India after merger; government decided to remove Mr.Raghu Menon from chairman post and replaced him with E.K. Bharat Bhushan. He remained for a short stint as interim. Then Mr. Arvind Jadhav is appointed as current CMD and he is expected to hold the position for next three years.

The details of market share of NACIL and private scheduled airlines (in percentage) in domestic sector in 2009 are as under:

Airline 2009

NACIL	17.5
Jet Air	17.9
JetLite	7.5
AirDeccan	
Kingfisher	23.9
SpiceJet	12.4
Paramount	01.9
Go Air	04.7
IndiGo	13.9
MDLR	0.27

Source: loksabha.nic.in

Due to the acute financial crisis, Air India was advised by government to come up with a restructuring or turnaround plan. NACIL has come up with a turnaround plan which is approved by government. Then, Committee of secretaries and Group of ministers approved to infuse equity of Rs.2000 crore in five installments. Apart from support of government, Air India is focusing on fleet rationalization, route profitability, manpower rationalization and other structural changes. As a part of this plan, ERP implementation is the line. The implementation of ERP focuses on integration of key business systems of Air India and Indian Airlines thereby it could help the company in making strategic decision-making, monitoring and controlling systems. SAP has been selected as the partner to implement ERP system.SAP helps Airline industries in developing passenger service planning and MRO (maintenance, repair and overhaul functions). Air India hopes to improve the profitability of its business by availability of real time information on network and passenger statistics.

6. Road Ahead

Despite the fact that the company is trying to effectively turn around, passengers are disappointed with the service of Air India. The passenger load factor of Air India is just 72 percent which is lowest among other airlines in India. There is a meager improvement in terms of marketing and promotions happening from Air India side in recently held Common wealth games. The road ahead is really tough to Air India for it to reincarnate itself. It is very clear that merger has not worked in terms of manpower, IT integration, operations and ground handling due to the above mentioned reasons. Looking forward, selling of strategic assets in Air India would be the best way to solve this crisis.

7. Teaching Notes

7.1 Summary

Airline industry is highly capital intensive business and revenue flow is more volatile. In such a volatile market, sound business decisions are crucial for sustainability and survival of the business. Air India and Indian airline merger proved to be bad example of business strategy and implementation. Post merger effects are more detrimental to the newly formed entity. Economies of scale has transformed into diseconomies of scale due to various reasons. The merger has not worked well in terms of manpower, IT integration, operations and ground handling.

7.2 Teaching Objective

The case serves to help the students to develop skills related to decision making and analyze the consequence of major strategic changes in the Air India and Indian airlines merger. It also focuses on implications of business decisions and delay in implementation of the same. Students can be asked to pin point the major and minor problems in the case such as mis-management, declining customer satisfaction, strategic implementation etc., and then assigned to come up with possible solutions to the ailing government owned carrier.

7.3 Suitability for use in what types of training programs or courses

This case is illustration of business strategy and its implementation in management. Therefore the case might be suitable for management students who are currently learning strategic management as subject. Apart from that, any person who is interested in the field of management can benefit from reading this case.

7.4 Sources and methods of collecting case material

The case revolves around one issue and all the information pertinent to the issue are collected via authentic sources in internet and newspapers. All the quantitative inputs in the case are provided with their correct source. Insights of industry leaders and eminent personalities about the issue are carefully captured along with their source.

Questions to advance the discussion

1. What are the major and minor problems in the merger decision?
2. Which type of CEO is currently required to effectively turnaround the merged entity?
3. Should Air India focus on targeting the right customer segment as newly merge entity to improve customer satisfaction?

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