

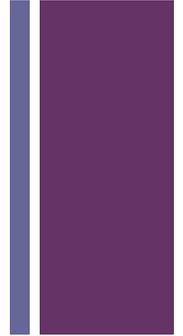
Ramki

How do some airlines
make profit while others
flounder?

+ Virgin Atlantic V British airways 2009 results

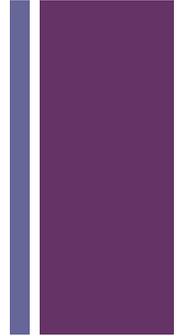
Virgin	BA
Doubled annual profits	Reported record losses
Premium paid travelers increased	Premium travelers fell 13%
Oil prices hedged	No Oil price hedging
Employees get 10% of profits as bonus	No bonus

+ Southwest performance



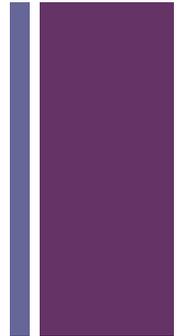
- Most profitable airline which has never made losses
- In 2008:
 - It carried more passengers (101 million) than any other airline in USA!
 - Southwest's market capitalization (about \$9.7 billion) was more than the combined (\$5.7 billion) market cap of its Big Six competitors!
 - It had about \$3 billion in cash on hand and \$600 million in available credit –while other airlines had gobbled up \$100B in capital and were bleeding!

+ The Southwest formula-1



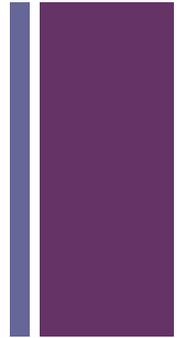
- **Pricing:**
- Lowest price!
- In 1971, IRS allowed 0.12 per mile as tax deductible and for Dallas- Houston distance of 242 miles this meant Driving cost of \$29.04.
- 4 hours was the driving time
- So SW sought to set a competitive price as compared not to other airlines but to Car travel!
- Price was set by SW at \$20 which was *less* than cost of car travel as per IRS rules.
- Air travel took just 30 min in SW
- The same plane ran between Dallas and Houston every 2.5 hours thus providing
 - a very convenient less costly, more dependable, time saving alternative to
 - the target customer who was a Texan traveling frequently between cities
- **Bottom line: Flat rate \$20 price- no yield management- no fuel surcharge etc –all inclusive price**

+ The Southwest formula-2



- Costs:
 - Aggressive fuel price hedging –saving millions for the company
 - No Travel agents –only direct booking- cost of commission to travel agents cut
 - No connection between Airlines –which increases turnaround time
 - No long haul flights –max. was less than an hour; only city pair travel
 - No meals – only nuts and beverages
 - One class only- no first class- so more seats; Boeing 737 had 137 seats against normal 128 for other airlines
 - No seat assignments- first come first served
 - Only one type of aircraft (Boeing 737) making maintenance/ training cheaper and easier and spare part inventories lower
 - Clear message/ matric on Break even and profitability- 75 passengers meant break even- everyone worked for it
 - No hub and spoke –only Point to Point
 - Happy work force –highest paid in industry- but they have 30% fewer employees per plane
 - Lowest non fuel CASM (cost per available seat mile) among airline cos
- Bottom line: Save costs by reducing unnecessary frills**

+ The Southwest formula-3



■ Service:

- On time arrival
- Friendly flight attendants who provide warm and caring service and share jokes etc
- Fast turnaround – Southwest can unload a flight, clean, restock the plane, and board another flight full of passengers in just 20 minutes (others take 90 mins.) –plane makes money when it flies not when it sits
- Good frequency- every 2.5 hours between Dallas and Houston

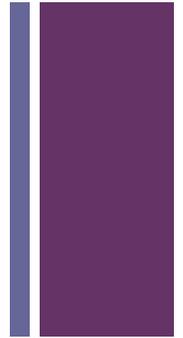
Bottom line: Provide better service at a lower price.

Note: See also “Lessons from Southwest, the amazing airline company” in value adds.

+ Kingfisher V Indigo

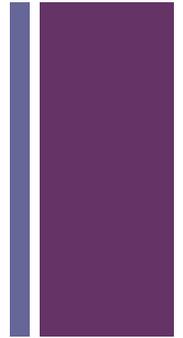
Kingfisher	Indigo
\$1.2 billion debt and accumulated losses of nearly \$1 billion	Only Indian airlines making a profit; readying for IPO
2009-10 loss Rs 1647cr; 10-11 loss: Rs 1027cr	2009-10 profit Rs 550cr; 10-11 profit: Rs 650cr!
High cost model- attendants carry your luggage etc ; food cost high; also hot meal equipment, cutlery etc increase weight leading to higher fuel cost	Low cost model- no frills ; no hot meal leads to lesser fuel cost
Has canceled dozens of flights	Recently launched international flights
Designer dresses for airhostesses- costly	Cute hair dos- much blogged about
Cricketers signed up at huge cost for commercials	World's first 'runway musical'; normally very low key advertising.
Several flights between several cities	Several flights between fewer cities (30)
Market share with 66 aircrafts 18.8%	Market share with 46 aircrafts 18.7%

+ What other things distinguish Indigo?



- On time arrival
 - Around 90%
- Word of mouth publicity
- Hires best talent in industry
- Only airline using ramp passage; wheel chair passengers can be boarded by just one employee; other airlines require 4 employees!
- Young fleet ensures low fuel and maintenance cost- planes over 5 years old are returned/ sold
- Has tightly framed maintenance contracts
- Some profit made on sale and lease back too (Rs 121cr 10-11)
- Training is a unique central operation with 3 segments:
 - Functional skills
 - Customer service
 - Leadership training at all levels -idea is to develop leaders internally
- 231 Airbus aircraft on order for delivery over the next 15 years

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