



CEO view: Wolfgang Prock-Schauer

As the aviation industry faces its biggest crisis in recent history because of high fuel prices and the economic slowdown, airlines are forced to do business differently as they seek to trim operating costs ruthlessly to brace themselves for tough times ahead.

“Jet Airways is working on all areas to streamline operations including cutting loss-making routes,” says **Wolfgang Prock-Schauer**, CEO of Jet Airways, India’s largest private airline. India’s aviation industry lost \$1 billion last financial year ending March 2008 and it expects to lose another \$2 billion this financial year. Jet Airways’ fuel bills have increased by \$50 million a month.

The problem in India is compounded by the fact that fuel costs are much higher there than in other countries because of high taxes and excise duties. “We are paying 60 per cent more than what airlines are paying in other countries,” Prock-Schauer told INSEAD Knowledge in an interview at the airline’s European hub office in Brussels. “Fuel accounts for 45 per cent of the operating cost of an airline in India. We are working together with other carriers to obtain relief from the government on these taxes.”

The airline has a cost-saving programme in place and is eliminating loss-making routes. These measures will save the airline some \$50 million during this financial year and an additional \$75 million next financial year.

The airline is also working to reduce its global distribution system costs. “The global distribution

companies are charging four dollars per passenger. We are in negotiations to reduce that figure,” he adds. “With 11 million passengers a year, a one dollar reduction would be significant.”

Another measure being taken is to reduce agencies’ commission. Prock-Schauer says airlines in India have told travel agencies they will migrate to a zero commission scheme as in North America and Europe. “We feel it’s the right time to introduce the scheme in India. Negotiations are underway to find a common platform to save agency commissions. One option is for agencies to charge passengers the transaction fee and put it on the ticket for a period of time.”

But airlines in India are not just seeing operating costs increase. For the first time in five years, there’s been a drop in demand for air travel in India. That’s resulted in Jet Airways reducing its domestic capacity by about 15 per cent and in cutting loss-making routes.

“We will review our route rationalisation strategy in the fourth quarter of this year,” Prock-Schauer says.

Jet Airways expects its plan to increase its fleet to 22 wide-body aircraft, giving the airline a global network, will be completed in October. “We are

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committed to the plan and have not cut back on it as we are investing in the future,” he adds.

Other challenges facing Jet Airways include infrastructure constraints at airports such as the availability of parking bays and air traffic control congestion leading to delays which increase the airline’s costs. Prock-Schauer says these issues are being addressed and the government has initiated programmes to upgrade the major airports in Mumbai (Bombay) and Delhi, as well as open new greenfield airports in Bangalore and Hyderabad. The infrastructure should be in place in two years.

As the demand for air travel declines, more Indian middle class travellers are reportedly turning to the country’s rail network. Will the trend last? Prock-Schauer says that with the emergence of low-cost carriers in the last four years, air fares have dropped to levels close to rail fares. As a result, the aviation sector had seen 30-40 per cent growth per annum in the last three years.

The sector, however, has now been plunged into losses due to ‘irrational pricing’. There is a disparity between the operating costs of airlines and the rates they are charging. Every carrier has since been forced to examine its rates and increase fares. A significant number of passengers who used to fly, went back to using trains. “With the cost basis as it is, we simply cannot afford to offer train prices. However, I am hopeful that with a growing middle class, we will see a lot more people flying.”

Despite a tough year ahead, Prock-Schauer believes air travel in India will continue to grow and the industry will return to profitability. “I am optimistic because China and India are the fastest-growing economies in the world. Using two times GDP (gross domestic product) as an indicator, we are talking about 15 per cent growth. That’s a good growth rate for the aviation industry.”

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