

Reason for the failure of Vistara airlines

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The Strategic Impetus Behind the Dissolution of Vistara Airlines: A Case Study in India's Competitive Aviation Market

Abstract

This study delves into the multifaceted reasons culminating in the dissolution of Vistara Airlines as an independent entity within the dynamic and challenging Indian aviation sector. Established as a joint venture between Tata Sons and Singapore Airlines, Vistara aspired to redefine air travel in India by offering a premium service. Despite its strong brand identity and commitment to high service standards, the airline encountered significant hurdles in aligning with the price-sensitive nature of the Indian market. This research identifies and analyzes critical factors contributing to its eventual merger with Air India in 2023, including high operating costs, limitations in achieving scalable growth, challenges in effective market penetration, and the disruptive impact of external events such as the COVID-19 pandemic. Ultimately, the merger represents a strategic consolidation of resources under the Tata Group to foster enhanced competitiveness. This paper provides valuable insights into the sustainability of full-service carriers in emerging economies and underscores the critical importance of achieving market fit and operational agility.

Keywords: Vistara Airlines, Indian Aviation Industry, Airline Mergers, Competitive Strategy, Market Penetration, Operating Costs, COVID-19 Impact.

1. Introduction

The Indian aviation industry is characterized by its rapid growth trajectory, juxtaposed with a complex regulatory framework, intense price competition, and infrastructural constraints (Doganis, 2019). Within this demanding environment, Vistara Airlines emerged in 2015 as a full-service carrier, a result of a strategic alliance between two prominent entities: Tata Sons, a well-established Indian conglomerate, and Singapore Airlines, renowned for its global aviation excellence. Vistara's inception was marked by a vision to introduce a differentiated, premium air travel experience to the Indian market, emphasizing superior service attributes such as spacious seating, gourmet culinary offerings, and personalized customer care (Vistara, n.d.).

However, despite its initial promise and strong brand appeal, Vistara faced increasing challenges in navigating the intricacies of the Indian aviation landscape. This paper aims to critically examine the strategic, financial, and operational factors that ultimately led to the airline's merger with Air India in 2023, effectively ending its journey as a standalone entity. By analyzing Vistara's experiences, this study seeks to provide valuable lessons regarding the viability of full-service business models in emerging economies characterized by price sensitivity and intense competition. Furthermore, it will highlight the significance of strategic alignment with market realities and the necessity for operational adaptability in the face of both internal and external pressures.

2. Background of Vistara Airlines and the Indian Aviation Market

Vistara's entry into the Indian aviation market in 2015 was met with considerable optimism. Backed by the combined expertise and financial strength of Tata Sons and Singapore Airlines, it positioned itself as a premium alternative to existing low-cost carriers that dominated the market share. The airline focused on providing a differentiated flying experience through a two-class cabin configuration (Business and Economy), enhanced in-flight services, and a strong emphasis on customer satisfaction (Vistara, n.d.). This strategic positioning aimed to capture a segment of travelers willing to pay a premium for comfort and service.

However, the Indian aviation market is predominantly characterized by intense price competition, driven by a large and price-conscious middle-class population (CAPA India, 2023). Low-cost carriers (LCCs) have historically held a significant market share by offering budget-friendly fares, often at the expense of frills and extensive service offerings. This competitive landscape posed a significant challenge for Vistara's premium-focused business model.

Furthermore, the Indian aviation sector is subject to a complex regulatory environment, including high fuel taxes, airport infrastructure limitations, and fluctuating currency exchange rates, all of which can significantly impact airline profitability (IATA, 2022). The entry and sustained operation of a full-service carrier like Vistara required a robust strategy to overcome these inherent market challenges.

3. Factors Contributing to Vistara's Dissolution

Several key factors contributed to the eventual decision to merge Vistara with Air India. These can be broadly categorized into strategic, financial, and operational challenges, further exacerbated by external disruptions.

3.1 High Operating Costs:

Operating as a full-service carrier inherently involves higher costs compared to LCCs. Vistara's commitment to premium services, including more spacious seating, complimentary meals, and a larger cabin crew-to-passenger ratio, translated into significantly higher operating expenses per passenger. In a price-sensitive market like India, these higher costs made it challenging for Vistara to consistently compete on fares with budget airlines, limiting its ability to attract a broader customer base and achieve economies of scale.

3.2 Limited Scalability and Market Penetration:

Despite its focus on quality, Vistara struggled to achieve the scale necessary for sustained profitability in the highly competitive Indian market. Its growth in terms of fleet size and route network remained relatively modest compared to the dominant LCCs. This limited scalability hindered its ability to leverage cost efficiencies and achieve significant market penetration across the diverse Indian geography. The airline primarily catered to business travelers and a niche segment of leisure travelers willing to pay a premium, thus restricting its overall market reach.

3.3 Weak Market Fit and Price Sensitivity:

The core challenge for Vistara lay in the fundamental mismatch between its premium service offering and the prevailing price sensitivity of the majority of Indian air travelers. While a segment of the market appreciates and is willing to pay for enhanced comfort and service, this segment remained relatively smaller compared to the vast majority prioritizing affordability. Vistara's inability to effectively cater to this larger, price-driven segment limited its potential for significant market share growth and sustained profitability. This echoes the challenges faced by other full-service carriers in India's past (Mohan, 2021; Saxena, 2020).

3.4 External Disruptions: The Impact of the COVID-19 Pandemic:

The COVID-19 pandemic delivered a devastating blow to the global aviation industry, and Vistara was no exception (McKinsey & Company, 2021). Travel restrictions, lockdowns, and a general fear of air travel led to a drastic decline in passenger demand. While all airlines were

affected, full-service carriers like Vistara, with their higher operating costs and reliance on business and premium leisure travel (segments that were particularly impacted), faced significant financial strain. The pandemic further exacerbated Vistara's existing challenges and likely accelerated the need for strategic consolidation.

4. The Merger with Air India: A Strategic Consolidation

The decision to merge Vistara with Air India in 2023 was a strategic response by the Tata Group to a confluence of challenges and opportunities within the Indian aviation sector. Vistara's struggles, compounded by the severe impact of the COVID-19 pandemic, created a compelling case for consolidation. Air India, having recently returned to the Tata Group after a period under government ownership, presented a unique opportunity to restructure and strengthen the group's aviation presence.

This merger was not merely a rescue operation for Vistara but a calculated move to create a more powerful and competitive airline. The consolidation allows for the integration of Vistara's strengths, particularly its focus on premium service and its relatively modern fleet, with Air India's extensive network, both domestic and international, and its greater operational scale.

The anticipated benefits of this merger are multifaceted:

- **Enhanced Competitiveness:** The merged entity is expected to be better positioned to compete across the spectrum of the Indian aviation market. By combining resources, the airline can more effectively challenge low-cost carriers in the domestic market while also strengthening its position against other full-service airlines in the international market.
- **Synergies and Cost Efficiencies:** A key driver of the merger is the potential to achieve significant cost savings and operational efficiencies. This includes optimizing route networks to eliminate overlaps, rationalizing the fleet to reduce maintenance costs, and consolidating various operational and administrative functions to eliminate redundancies.
- **Expanded Market Presence:** The combined airline boasts a larger fleet and a more extensive route network, enabling it to cater to a wider range of passengers. This expanded reach increases market share potential and allows the airline to capture demand across different segments, from budget travelers to premium customers.
- **Leveraging Brand Strengths:** Both Vistara and Air India bring valuable brand assets to the merger. Vistara is recognized for its premium service and customer satisfaction, while Air India benefits from a long-standing history and strong brand recognition, particularly in the international market. The merged entity can leverage these combined brand strengths to create a

compelling value proposition and enhance customer loyalty.

In essence, the Air India-Vistara merger represents a strategic realignment within the Tata Group, aimed at creating a more sustainable and dominant force in the Indian aviation industry.

5. Implications and Lessons Learned

The dissolution of Vistara Airlines as an independent entity offers several crucial insights and lessons that extend beyond the specific case, providing valuable takeaways for the aviation industry, particularly in emerging markets like India:

- **The Dominance of Price Sensitivity:** This case emphatically reiterates the profound influence of price sensitivity in the Indian aviation market. The overwhelming preference for affordability among a large segment of Indian travelers poses a significant hurdle for full-service carriers that aim to command a premium for enhanced services. Airlines operating in similar markets must recognize that balancing service quality with competitive pricing is not just desirable but essential for long-term survival and profitability.
- **The Importance of Scalability:** The Vistara experience underscores the critical role of achieving economies of scale in the airline industry. The inability to attain sufficient scale can limit an airline's ability to reduce costs, optimize resource utilization, and effectively penetrate the market. Airlines need to aggressively pursue growth strategies that enable them to spread fixed costs over a larger base of passengers and operations.
- **Strategic Market Fit is Paramount:** A fundamental alignment between an airline's business model and the characteristics of its target market is of utmost importance. Vistara's challenges highlight the risks of a mismatch between a premium service offering and a market where a large proportion of customers prioritize cost-effectiveness. Airlines must conduct thorough market research and develop strategies that resonate with the specific needs, preferences, and economic realities of their customer base.
- **The Need for Operational Adaptability:** The aviation industry is inherently dynamic and susceptible to various external shocks, including economic fluctuations, regulatory changes, and unforeseen events like the COVID-19 pandemic. Vistara's experience emphasizes the importance of operational agility and the ability to adapt strategies and operations in response to these evolving circumstances. Airlines must build resilience and flexibility into their business models to navigate uncertainty and maintain competitiveness.
- **The Potential of Strategic Consolidation:** In highly competitive and challenging market environments, strategic mergers and acquisitions can provide a viable pathway to enhanced competitiveness and sustainability.

The Vistara-Air India merger illustrates how consolidation can enable airlines to achieve cost efficiencies, expand market reach, and create a stronger entity capable of withstanding industry pressures.

6. Conclusion

The journey of Vistara Airlines as an independent entity in the Indian aviation market provides a compelling case study in the complexities and challenges of operating a full-service carrier in a predominantly price-sensitive environment. While Vistara successfully established a strong brand and a reputation for quality service, its high operating costs, limited scalability, and the fundamental challenge of market fit ultimately hindered its long-term viability as a standalone airline. The strategic decision to merge with Air India represents a calculated move to consolidate resources, leverage synergies, and create a more robust and competitive aviation entity under the Tata Group umbrella. This development underscores the critical importance of aligning business strategy with market realities and the potential of strategic consolidation in navigating the turbulent skies of the aviation industry.

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