Aspirations, Enterprise Strategy and Sustenance of a Start-up in a Competitive Environment: A Study of Developments in Air Deccan

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W.P. No.2007-11-03
November 2007

INDIAN INSTITUTE OF MANAGEMENT
AHMEDABAD-380 015
INDIA

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Abstract

This paper studies the developments in Air Deccan, a start up in the Indian aviation industry and discusses the linkages among the aspirations of the entrepreneur, enterprise strategy and its sustenance in a competitive environment. It argues that the entrepreneur fails to sustain his/her enterprise and the aspirations if his strategic and operational choices and environmental responses to the choices create a resource or competence imbalance and constrain the entrepreneur. Based on its analysis and discussion, the paper delineates managerial themes like encyclopedic entrepreneurship, sustenance through co-sharing aspirations, managing first and fast mover advantages, dynamics of enterprise and its environment and competence management in start- ups.

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1. Introduction

All entrepreneurs start with aspirations for self and the society. These aspirations drive their search for opportunities to offer products and services, obtain collaborations, mobilize resources and take initiatives for innovations. They also shape the vision and mission of the enterprise as it takes roots and stabilizes. The entrepreneurs also have some ideas about market needs and their capabilities to fulfill the need. These ideas and aspirations form the strategic template of their enterprise (Bird, 1988). In fact the nature of these aspirations forms the basis for categorization of entrepreneurship as social entrepreneurship or commercial entrepreneurship (Austin, Stevenson & Wei-Skillern, 2006). While the fundamental aspiration or purpose of social entrepreneurship is to create social value, the purpose of commercial entrepreneurship is to create personal and shareholder wealth. The success or failure of the entrepreneur strategy can be seen in terms of its impact on the aspirations. Enterprise failure in management literature has been treated as synonymous with financial failure. On the contrary, while enterprise as a financial entity may survive, it, as an embodiment or beacon of entrepreneur's aspirations may fail. That is, the entrepreneur fails to realize or sustain his/her aspirations. How do entrepreneurs realize their aspirations? Or alternatively, why do they fail to realize their aspirations? Why does it happen?

In this paper we have attempted to seek answers to these questions by studying the developments in Air Deccan, an entrepreneurial start up. It had articulated its aspirations to be the 'Udupi Hotel of the Airlines Industry' and 'empower every Indian to fly'. In a short span of four years, the enterprise scaled new heights in growth and facilitated the air travel of first time fliers. It won recognition as the most innovative enterprise of the year. In its fourth year, severe fund requirement against mounting losses threatened the sustenance of the start up. It looked for support from various sources. The support did not come by in time. Support came from the promoter of another airline. Initially the entrepreneur did not want to have links with this investor on the ground that their business models and aspirations were different. On coming on board, the new strategic investor introduced changes in the strategy of the enterprise that altered significantly the original design of the organization. The airline got re-launched as a semi luxury airline with changes that signal the dilution of the early aspirations and non sustenance of the original strategy of the enterprise. How did it happen? What were the imbalances in facing the various challenges? What are the implications of this experience for entrepreneurial start ups? We respond to these questions by tracing the milestones in the life of Air Deccan and analyzing them. We draw implications for realizing the aspirations of an entrepreneurial start up. This case also has important implications for enterprises which aspire to follow the same opportunity driven and aspiration driven model. Based on its analysis and discussion, the paper delineates managerial themes like encyclopedic entrepreneurship, sustenance through co-sharing aspirations, managing first and fast mover advantages, dynamics of enterprise and its environment and competence management in start-ups.

The rest of the paper is organized as follows. In the next section, we outline the challenges faced by a startup. We then profile entrepreneur's aspiration and his initial strategy. This is followed by a description of the developments at Air Deccan and its business environment. We then analyze the developments in the context of sustenance of aspirations. Finally, we conclude with a discussion of managerial themes arising from the analysis.

2. Managerial Challenges of a Startup

A startup finds itself in a delicate situation. Its aspirations are higher but its resource base is narrower. It has to evolve a strategy that would enable it to leverage its resource base in order to realize its aspirations, and sustain them in the context of subsequent developments in both internal as well as external environments. The key managerial challenges faced by it can be presented as follows.

Competence Congregation and Cultivation: The startup does not possess all the resources and capabilities needed. It experiences a gap between the competences it has and the competencies required for formulating and implementing its strategy. Bridging this gap with little or no loss of time is the challenge. This translates further into congregating competent people and technology, and facilitating learning within the resource constraints of the enterprise. An unknown entity with larger than life aspirations needs to attract people who subscribe to the aspirations and respect the resource constraints while defining the terms and conditions of their engagement (Zahra, Nielsen & Bogner, 1999).

It may so happen that the enterprise fails to attract the desired competencies. How does it then improvise or work around is the issue. There could be a mismatch of the other kind as well. It could attract competencies and resources in excess of requirement. How to communicate the aspirations of the enterprise and tone down would be the question. Along with congregation, it is required to cultivate its distinctive competence to defend itself against competitive forces and sustain itself.

Educating: A start up normally begins with an innovation in service or product or process. The innovation creates a competence gap in the environment and constrains the environment from absorbing the innovation appropriately. The aspirations of the enterprise will not be realized if the needed competences are not developed in the environment. How does the enterprise use its limited resources to 'educate the environment' is the issue. The other question is, "Will the corporation have access to free resources that educate the environment and enable the enterprise to realize its aspirations".

Monetary: Every transaction of the startup demands money. Where will the supply come from? Will it happen in the way the demand unfolds? The supply has to come from either the money market – debt and equity – or from operations. The money market source is decided by the comparative evaluation of the enterprise vis-à-vis other enterprises that also tap the money market. The cash from operations is dependent on both revenue and expense management. Revenue is dependent on managing both price and volume of operations. Expense management is dependent on the efficiency in handling the various processes. How does a startup learn about this and respond? Failure to learn and respond would cause a fund crisis and threaten the sustenance of the startup.

Innovating: Innovation releases the constraints on the startup and enhances the speed and scale of realization of its aspirations. The gap between the resources of the enterprise and its aspirations, and that between what the environment can readily provide and what is needed by the enterprise, create opportunities for innovation within and outside the enterprise (Cohen and Levinthal, 1990). The startup's response is dependent on how it recognses the opportunities and allocates its limited resources to develop processes and outcome for innovation.

Innovations could lead to one or a combination of the following depending upon the nature of the innovation:

- Elimination: The startup may eliminate certain activities in its value chain engage in fewer activities than competition and minimize the demand for resources without diluting the achievement of its aspirations.
- Combination: It may combine several activities to be able to afford a high priced resource or spread the cost of high priced resources.
- Substitution: It may substitute a high cost activity by a low cost activity to achieve its aspirations. It may also substitute an existing material or need by another. Substitution opens up a new category or opportunities.
- Exploitation: The Startup may adopt processes and mechanisms to exploit the imperfections in the market (by way of excess supply or inadequately equipped supply) in order to hire resources at a lower price or better terms.
- Augmentation: It may augment its existing activities that generate additional revenue and enable the startup to recover its fixed costs on existing infrastructure and resources.
- Subsidization: It may obtain access to free resources in the environment to subsidize its other activities.

Balancing: Each of the above challenges demands resources from the entrepreneur and the enterprise. The resources could be time, knowledge, money and good will. The challenge is one of allocating these resources to meeting various challenges judiciously to create a synergy and not competition across the responses and initiatives to ensure success in realizing the aspirations and sustaining the initiatives and their results. An imbalance signals the directions towards failure. The challenge is in achieving not a one time balance but sustaining it over a longer time horizon. It warrants all time and all round alertness on the part of the entrepreneur and his team to signals of imbalance, success and failure.

3. The Entrepreneur, his Aspirations and the Enterprise

Air Deccan was set in August 2003 to connect smaller towns with metropolitan centres, starting with airports in the south of India. The vision of the airline was articulated as empowering every Indian to fly[1]. Mr. R. K. Laxman's 'Common Man'[2] was chosen as the brand ambassador. Its mission was articulated as "To demystify air travel by providing reliable, low cost and safe travel to the common man by constantly driving down the fares as an on going mission". Deccan Aviation Ltd. that operated Air Deccan was promoted by Captain Gopinath and the senior officers from the Indian defense services. Capt. Gopinath had served the Indian Army before starting his own sericulture venture. He had won the Rolex International Award for Enterprise in 1996 for his project 'Ecological Silk Farming to improve Living Standards'. He ventured into aviation business in 1997 by setting up Deccan Aviation that provided chartered helicopters. The entry was facilitated by the availability of retiring pilots from the defense forces. The demand for chartering was from a variety of services ranging from aerial photography, power line surveys, gas pipeline services, film shooting, medical evacuation. By 2006, the company grew to offer services with ten helicopters and two fixed wing aircrafts. Their ad campaign said, "If it is on the map, we will get you there." The advertisement received responses from various small towns that had airports but did not have connectivity. This pointed to a dormant need for scheduled air services to connect the hinterland. Air Deccan was launched as a low cost airline to meet this need. He did not want his to be the biggest airline in the country, but one which was tapping into a niche market. Mr. Gopinath was joined by Capt. K. L. Samuel, an Army Aviation Pilot and a Presidential Gallantry award winner, Lt. Col. V.S. Raval, also a Vishist Sewa Medal Winner, and Mr. S. N. Ladhani, an Industrialist.[3]

In 2004, the enterprise had a paid up capital of Rs. 300 million[4] against an authorized capital of Rs. 1 billion. As founder promoter, Gopinath held 26% of the equity, Brindavan Beverages 20%, a non resident Indian firm 20%, a Japanese Investor, Miyagawa 20% and other promoters and high net worth individuals held 14%. Miyagawa sold his stake to Mr. Kapur, Mr. Ladhani and Captain Gopinath and retained less than 1%. He had invested Rs. 350 million initially. The following quotations reflect the thinking of the entrepreneur:

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[1] Source: Media Releases from www.airdeccan.net
[2] The Common Man is a popular comic character created by cartoonist R. K. Laxman in 1951. Through the daily cartoon strip – You Said It – in the national daily 'The Times of India', it touches several aspects of harsh realities in an average Indian's life.
[3] IPO Prospectus, 2006 pg. 109-112
[4] All financial information expressed in Rs. (1 USD ≈ 40 Rs.)

> … I began to feel that the real challenge was in bringing aviation to the common people. Somehow every body had missed this – this 300 million middle class has been targeted by manufacturers of TVs, refrigerators, tooth paste and shampoo and cosmetics and so on... [5]

In four years Air Deccan had grown into a Rs. 25 billion company with the largest route network and the largest e-commerce site. The company had started with one forty eight seater ATR-42s offering twice-daily return services from Bangalore to Hubli, both in Karnataka. Despite its almost disastrous maiden flight the company stayed on to open a hub in Chennai. It became the first private operator to fly the 128 seater Airbus 320. In its first full year of operation the company flew 1 million passengers and earned revenue of $75 million (Rs. 3 billion).

In 2005 it articulated its aspirations in the next five years as follows:

> In the next five years we'll probably be the largest airline in the country both in terms of the aircraft and in terms of the number of people we fly.[6]

It adopted a "lean and mean" approach to staffing levels and aimed at maintaining a low aircraft-to-employee ratio to keep costs down and ticket prices low. It eliminated standard airline frills like onboard catering, business lounges, upper-class seats and other promotional services. It wanted the passengers to 'simply fly'. The company pioneered the introduction of e-ticketing and ticket purchase through multilingual call centers that were open through out the day. The company was recognized as the most innovative company of the year by a financial daily. Air Deccan saw an opportunity to reduce costs through innovations in distribution management and staff flexibility. It positioned itself closer to the first class train fare and hoped to attract first time fliers. It did not offer through check in of either for passengers or for baggages.

By December 2005, Air Deccan connected 45 airports in India, surpassing all the big airlines that had been operating in the country[7] much before Air Deccan was incorporated. By February 2006, with a market share of 14.2% it also became the third

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[5] Capt. Gopinath in an interview with M. Patibandla in IIMB Management Review, March 2005, p.37
[6] Capt. Gopinath in an interview with M. Patibandla in IIMB Management Review, March 2005, p.39
[7] Air Deccan Media Release November 2005, www.airdeccan.net

largest airline in India[8]. The largest airline was Jet Airways, another private airline that harbored the ambition of acquiring a domestic airline to establish itself as a number one player, followed by the fifty year old public carrier – Indian Airlines.

4. Industry Experience at the time of Entry

4.1. Monopoly and Liberalization

In the early eighties there were 400 airports in India, but they were unconnected. Indian Airlines, the public carrier was the only airline trying to cover both metros and smaller airports. With a view to focus on the hinterland the Government of India had launched Vayudoot as a public sector company in 1981. It could not sustain its operations due to higher costs of running. It was absorbed by Indian Airlines in 1993. At the time of merger the company had a total liability of Rs. 1.86 billion while the book value of its assets was only Rs. 147.1 million.[9]

Till 1991, the aviation industry was closed to private sector operations by the Air Corporation Act of 1953. The act had nationalized the private airlines and constituted Air India and Indian Airlines to operate international and domestic flights respectively. In 1991, the private airlines were given permission to operate chartered and taxi service under the 'Air Taxi' scheme. These carriers were not allowed to fly scheduled flights or issue air tickets to passengers. In 1994 the Air Corporation Act was repealed and the private players were allowed to operate scheduled services. This liberalization facilitated the entry of private players like Jet Airways, Sahara Airlines, Modiluft, Damania Airways, NEPC Airlines and East West Airlines.

Liberation of the sky had seen the entry of single aircraft operators in the private sector like Span Airways, Gujarat Airways and NEPC. They could not sustain themselves either. It was reported that NEPC did not have funds to pay its fuel bills. (Indian express, Tuesday, May 27, 1997) The experience of these operators indicated that the hinterland small aircraft operations were viable only if the operator had a sound overall cost management strategy. There were limitations on revenue generation.

[8] IPO Prospectus (2006) p.77
[9] The Hindu (July 14, 2003)

However, by the mid 90s, Jet and Sahara were the only two players in the market. Rest of the players grounded their fleet due to some or the other reason. In 2000, Sahara Airlines refurbished its market image and re-launched the service as Air Sahara. In 2004 the Indian carriers with scheduled services were allowed to operate international flights, if they had completed five years of continuous operations and had a minimum of 20 aircrafts. In response Jet Airways began operation to and from Singapore, Malaysia, Thailand, Hong Kong, UK, USA and Canada.

4.2 The International Low Cost Aviation Experience

When Air Deccan entered the industry, there were successful low cost airline experiments abroad like those of South West Airlines and Ryan Air. They had introduced organizational innovations to keep their costs lower and flying hours higher. They offered point to point service and did not offer free services on board. The industry had also seen the rise and demise of People's Express promoted by Mr. Burr. He had taken complete advantage of the deregulation of the industry to introduce the first no frills low cost air transportation services in 1981. He had launched the airline with a fleet of Boeing 737 – 100 from the old Newark North Terminal. In 1983 it had launched sky train like service from Newark to Gatwick. He made air transportation affordable and changed the profile of the aviation industry. He could not however sustain his lead and had to close down.

Inspired by the experience abroad and the liberal environment at home Air Deccan was poised to take off and sustain itself.

5. The Developments in Air Deccan

5.1 Congregating the competence base

Captain Gopinath needed to put together a team of security staff, engineers, pilots, cabin crew, call centre staff and others to get off the ground. He benefited from the existence of competencies in the country and abroad. To access these competencies in affordable terms he relied on his contacts and the services of executive search agencies. He recruited both experienced personnel and freshers. The experienced technical and administrative staff was from defence services, airlines in India and abroad, and Indian corporate sector. The pilots were recruited from the defence forces and abroad. They were offered salaries as per industry standards. In selecting the cabin crew the management looked for modest family back ground with no inhibitions in engaging in aircraft cleaning activities. Captain Gopinath was supported by Mr. Mohan Kumar, a chartered accountant, who had joined Air Deccan as Chief Finance Officer. He had met Captain Gopinath in 1996. He studied the aviation industry and the experience of low cost airlines and worked out a revenue model suitable to India. The support of Mr. R. Krishnaswamy, who had worked for 35 years with Indian Airlines, the monopoly public carrier, was sought in flight scheduling, route analysis and co-ordination with regulatory authorities. He had worked in various capacities like Regional Manager (Gulf), General Manager (Commercial), Southern Region, Country Manger – Maldives and Sri Lanka before joining Air Deccan in 2003. Mr. Theodore Dounlas was appointed as the chief operating office (COO) in February 2004. He had worked in Monark Airlines for twenty five years before accepting this position in Air Deccan. Reshma Sing with ten years experience in logistics department of Indian Airforce joined the enterprise and provided support in organizing the logistic function. In January 2005, Mr. Brian Badbury, with experience in British Airways and Gulf Aircraft Maintenance Company, joined Air Deccan as Chief Engineer. Mr. Kuruvilla, with experience in Leo Bernett, an advertising company, East India Hotels Limited, a hospitality company, and Contract advertising, joined Air Deccan as Chief Revenue Officer. A major breakthrough was in September 2005 when Mr. Brady was persuaded to join Air Deccan as Chief Operating Officer. He was deputy director of operations at Ryan Air with the overall responsibility for managing the Stansted airport. He had begun his career as a pilot in Britannia airways. In February 2007 Mr. Ramki Sundaram, an IIT Chennai and XLRI, Jamshedpur, graduate with experience in investment banking and financing aviation business. He was earlier with Investa Bank. He had helped Air Deccan in negotiating the financial deals with the bank.

There were 381 employees in 2004. The employee strength increased to 2600 in June 2006. The major increase between 2004 and 2006 was in the strengths of pilots (32 to 385), cabin crew (31 to 427), security staff (8 to 400) and engineers (34 to 470).

Captain Gopinath could not sustain the entire base of competencies assembled by him. Senior executives left the company when they found better options. Executives recruited for managing airport services, Human Resources, IT management, engineering and quality control. Mr. They stayed for a year or so with Air Deccan. Theodore Dounlas resigned in August, 2004. Mr. Gangopadhyay and Mr. MacLean Raphael provided

Human Resource management support for a year each and left the company. Mr. Raphael had worked with organizations like Tatas, Bharti Televentures and HSBC before joining Air Deccan. It was possible to fill the positions with new recruitment owing to the success of the concept of 'No frills, low cost airline'. By June 2005, Air Deccan had carried over 1.3 million passengers and was connecting 33 airports. It had 111 flights a day with a fleet size of 5 Airbus A 320 (180 seater) and 12 ATR-42 (48 seater). It had ordered 60 brand new aircrafts (30 Airbus A320 and 30 ATR-72-500) to be delivered over the next five years.[10]

5.2 The Next Demand for Competences

Once Air Deccan got experience in connecting the unconnected airports, it ventured on the trunk-routes by seeking to connect the larger airports. Leveraging on its initial success, the enterprise entered the trunk route segment with an Airbus A320 jet aircraft. The fleet strategy adopted by Air Deccan was two pronged: plying 48 and 72 seater ATRs on the regional routes and the 180-seater A320 on the trunk routes. The logic behind the strategy was that the smaller aircrafts were suitable for the shorter runways at the regional airports, which were much smaller in size; while the jet aircrafts on the trunk routes helped it to achieve higher capacity and carry passengers over a longer range than the ATRs. However, in order to maintain and operate the A320 fleet, they entered into a operating lease with Airbus, wherein the title remained with the aircraft owner, while the operator paid up rental payments, which were tax deductible and reduced not only the capital expenditure on the operator's balance-sheet but also the operator's exposure to uncertainty of the aircraft's residual value at the time of its disposal. The lease payments comprised of a fixed base payment and a variable maintenance reserve determined based on the aircraft usage. In 2005, the lease rentals were around Rs. 100 million per month and the maintenance and repair expenses were around Rs. 90 million per month, together comprising of around 30% of the income, second only to the fuel expenses of 42% of the income.[11] The expansion and financing plans of Air Deccan demanded competencies different from those needed to launch the airline. They needed co-ordination, negotiation, financial deal designing and implementation competencies. They relied on the domestic and international industry experience to congregate these competencies. This stretched the management bandwidth of the promoters.

[10] Air Deccan Media Release June 2005, www.airdeccan.net
[11] IPO Prospectus, pages 57-59 & 120

5.3 Money Mobilization

5.3.1 Initial Financing, IPO and Innovative Financial Deals

Since its inception the company had been consistently in need of funds to finance acquisition of planes and manage operations. The initial funding came from the savings of the promoters and their family members. The company cast its net wide to augment this base. The credibility of the promoters, the early success with the helicopter chartering business and the appeal of the 'business concept' enabled it to access well established venture financing institutions and consulting companies to build a mix of debt and equity. In December 2004 the company sold 24% shareholding to ICICI ventures Funds and Capital International, a US based asset Management Company. Jointly they committed $ 40 million (Rs.1.6 billion)[12]. Indian regulations on foreign direct investment that permitted up to 49% investment in local airlines by non airline investors enabled the enterprise to access international funds.

In 2005 the company needed funds to build an engineering centre, have hangers at the airports and create a maintenance centre. It was felt that absence of an infrastructure could be a bottleneck in sustaining the success of the enterprise. The company floated an Initial Public offer (IPO) to raise money for this. It offered 24.5 million shares of Rs. 10 face value and planned to raise Rs. 3.6 billion. The company had hoped to sell at Rs. 175 per share. Nearly 44% of the proceeds were to be utilized for repaying the debt. Approximately 74% of the total debt repayments would be for the loans taken for pre delivery payment of the aircrafts and the rest for the loans taken to acquire helicopter and bridge the working capital gap.

At the time of going public, the sales turnover of the enterprise had increased from 234.1 in 2003 to Rs. 629.4 million in 2004 and further to Rs. 3.06 billion in 2005 and Rs. 4.8 billion in eight months ending November 2005. However, the company had incurred an operating loss of Rs. 181 million in 2005 and Rs. 1.2billion in eight months ending November 2005.[13] Some advisory services had recommended 'don't buy' for the issue. In view of this, the market response to the IPO was not as expected. The enterprise had to

[12] The Hindu (December 22, 2004)
[13] IPO Prospectus (2006) p.120

cut the expected price of the share and extend the subscription period for its IPO. It was sold at Rs. 148 per share against the expectation of Rs. 175 per share.

The demand for funds increased with the formulation of an aggressive expansion plan to connect as many airports in India in as short a time. 2005 itself, the company signed a $1.4 billion (approx Rs. 60 billion) contract for buying 30 Airbuses and 30 ATRs to be delivered in the next five years. The enterprise assigned its supply contract in favour of a special purpose company promoted by Investec bank, UK, and HSH Nord Bank AG of Germany. In return for renouncing its rights over the contract the enterprise obtained a non refundable sum of $100 million (Rs. 4 billion) it, however, retained the right of first refusal. According to the agreement, when it went to the company to buy the plane, it had to pay a premium over what the airline had agreed to pay to Airbus. The deal was seen by analysts as a landmark deal. The company obtained $400 million from a consortium of five leading international banks Calyon, Grindays, Barclays, HSBC and StantChart to finance the acquisition of 21 A320s and 27 ATRs over five years.

The total debt of the company in September, 2006 was Rs. 5.43 billion of which Rs. 2.33 billion was the aircraft hire purchase capitalized debt, Rs. 2.51 billion was towards pre delivery financing for the new aircraft, Rs. 163.7 million was the term loan for chartered division and the balance of Rs. 425.9 million was towards airline operations.

In November 2006, the promoter groups holding of 22.57% was split among co-promoters Gopinath (11.5%), Captain Samual (8.5%), and Vishnu Raval (2.9%). The remaining public share holding included Institutional holding of 30.68%, 10.22% of a London based venture capitalist and 11.38% of Mr. Ladhani.

5.3.2 Pressure from Vendors

Like many other emerging countries in Asia, India also was a battleground for the two giants in airplanes manufacturing – Boeing and Airbus. Airbus was the main supplier of large and small airplanes to Air Deccan and it was quite excited about the way Indian civil aviation sector was growing. But they were aware that the market was growing at the expense of the players' profits and they did not want to run into payment defaults due to the over-excitement at their buyers' end. Hence, they kept a close watch on the company performances and when they saw that Air Deccan's expansion plans were leading the entire Indian civil aviation industry in the red, they put all their force behind the big players and persuaded them to take the control in their hands. When it came to aspirations of enterprises, there was a major disconnect between the main vendor and Air Deccan. While the founder of Air Deccan nurtured a social aspiration of serving the flying needs of the common man, Airbus was more worried about the economic logic of and revenue model of its buyer industry. Airbus estimated that the market had potential to grow, but it would not make business sense for them if any of their customers defaulted because of a flawed business model.

5.3.3 Next Strategic Investor

The enterprise continued to incur operating losses in 2006 and 2007. It had announced a loss of Rs. 2.13 billion in the quarter ended March 2007. In 2007, the company was incurring a loss of Rs. 500 per seat. It appeared that the company would not be able to generate funds from internal accruals to fund its expansion plan. It proposed to raise the funds through sharing of equity with a strategic investor. The enterprise assigned the task to a financial services company Edelweiss. Those who showed interest in funding went through due diligence and long discussion with Mr. Gopinath and his CFO. No one confirmed his investment. In early 2007, one of the country's top-most business houses Reliance Anil Dhirubhai Ambani Group initiated the due diligence of Air Deccan, signaling their entry into the expanding civil aviation sector. This deal could never be concluded because Capt. Gopinath was not ready to part off with the controlling stake in Air Deccan. Finally, in the last week of May 2007, Mallya persuaded Gopinath to allow UB holdings to buy out 26% stake in Air Deccan at Rs. 155 per share (which was apparently higher than the Reliance ADAG's offer) amounting to Rs 5.5 billion. Mr. Mallya emerged as a partner by providing an advance of Rs. 1.5 billion in three days. The board meeting was at 5.00 pm and the money was sent by 4.15 pm. He also argued that another partner would create a competitive game that would bleed the industry. He also assured that it was not a merger.

The Board approved on 31st May 2007, the preferential allotment and issue of 3, 52, 22231 equity shares at a price of Rs. 155 per share to United Breweries Group. The total investment came to Rs. 5.5 billion with a stake for 26%. The advantages cited in favour of the move were the synergies from the sharing of infrastructure, connectivity, resources and best practices in ground handling. As per the regulatory requirements, Mr. Mallya made an open offer to raise his stake to 46%. The Air Deccan shareholders tendered 35 million shares against the required 27.1 million shares at Rs. 155 each. Initially Mr. Gopinath had ruled out any stake sale to Kingfisher, another airline on the ground that the philosophies of the two companies were different by stating that "They (Kingfisher) are from Venus, while we (Air Deccan) are from Mars" However, finally when the deal was done, it was agreed that Capt. Gopinath would be the executive chairman with no casting vote, and would play the role of mentor to guide and support the professional CEO, whereas Dr. Mallya would be the vice chairman of the company.

5.4 The Innovations

Certain key innovations adopted by the enterprise are presented below:

5.4.1 Commitment to the Common Man

While the concept of no frills airline was not new to the International Airline Industry, Captain Gopinath adapted it for India. In deviating from the current model of full service airline, he introduced several modifications in the roles of the cabin crew, compensation package, scheduling and sale of tickets. It positioned itself close to the substitute, i.e. travel by road or rail. To be able to access the larger volume of passengers it reduced the fare and made the buying of tickets easy. It developed multiple channels to sell its tickets and adopted the practice of dynamic pricing. Its rules for cancellation and refund were different from those of full service airline. It imposed a penalty on rescheduling the booking and did not refund the ticket amount. The passenger however could travel another day with the cancelled ticket. The differences between Air Deccan and a full service models were as follows:

- Air Deccan's pilots stayed in company guest houses and transit houses while the full service airlines pilots stayed in five star hotels
- Air Deccan did not have a separate cleaning staff. The air hostesses cleaned the aircraft and obtained a cleaning allowance.
- The transit inspections were not done by a separate engineering staff. The pilots themselves did the inspection.

Air Deccan had 70 employees per aircraft while Indian had 400 and Jet over 170. The cost per seat per kilo meter was Rs. 2.45 compared to Rs. 2.8 of the competitor. To reflect explicitly its commitment to the common man it adopted the common man's cartoon as the brand ambassador and sported it on its airline.

5.4.2 Developing New channels

The entire inventory of seats of Air Deccan was available on line. Passengers could book the tickets through one of the following channels:

- City office counters at Bangalore and Chennai
- Website of Air Deccan (www.airdeccan.net)
- All India 24x7 call centres
- Airport counters
- Travel agents across India
- Reliance Web Worlds
- Indiatimes web site
- Club HP outlets of Hindustan Petroleum Corporation in 7 states of India

For the first time in Indian Aviation, the passengers got an opportunity to book through alternative channels. Air Deccan rewrote the rules of buying and flying. The payments could be made by cash or by credit card. The carrier issued only e-tickets that had to be produced at the counter along with photo identity card. The tickets once booked could be rescheduled at a cost of Rs. 600.

5.4.3 Dynamic Pricing and the Fare Game

Air Deccan had articulated its philosophy of offering lowest fares and empowering every Indian to fly. Its fares were dynamic in nature and were governed by the demand and supply situation. The earlier one booked, the lower was the fare. The fares were advertised through the news paper media. The fares were universal across the globe. Foreigners were not charged more than the Indian travelers. The total air ticket consisted of the following:

- Basic fare
- Fuel surcharge of Rs. 900 per passenger
- Passenger service fee of Rs. 225 per passenger
- Transaction fee of Rs. 50 per passenger if booked through the web or 5% of the basic fare if booked by any other channel
- Congestion charges of Rs. 150 per passenger.

Air Deccan charged for special services like wheel chair assistance or support to unaccompanied minors. The charges for wheel chair assistance and support to minors were Rs. 200 and Rs. 500 respectively. These charges were to be paid for by cash. It served refreshments and beverages, including water, on board at a price. It did not allow outside food to be taken on board. Air Deccan became the first operator in India to adopt dynamic pricing system and create multiple channels of ticket distribution namely Internet, phone, and direct booking at the airport.

The enterprise competed on price. For example, the competition charged Rs. 19,000 per seat between Delhi and Tiruvananthapuram. Air Deccan cut the price to Rs. 10,000. Similarly, the fare between Bangalore and Cochin sector was reduced from Rs. 4,800 to Rs. 3,000. On the Bangalore – Delhi Sector, for example, the last day fare was dropped from Rs. 6600 to 5200. In contrast the fare of full service airlines was Rs 11,400. The Delhi – Chennai sector fare was reduced from Rs. 6600 to Rs. 4500 against the full service airlines fare of Rs. 11800. On June 7th 2005, the company released 1800 tickets priced at Re. one. The fare to the customer included the taxes amounting to Rs. 221.

5.5 Response of Competition

5.5.1 Matching Prices and Eliminating Distribution Advantage

In response to Air Deccan's price game, the incumbent airlines like Indian, Jet Airways and Sahara Airlines slashed their rates and introduced advanced Purchase schemes (APEX) to offer competitive prices. They also adopted dynamic pricing schemes. They imitated the distribution channels and provided for booking through several channels, including the internet. E-commerce companies like 'Makemytrip.com', travelguru.com, cleartrip.com and yatra.com, and the travel agents provided for a comparative analysis of the fares on a particular day and enabled the passengers to opt for a combination of airlines. It was noted that on some days, the fares of the full service airlines were lower than that of Air Deccan.

5.5.2 New Entries in low cost airline

In May 2005, Dr. Vijay Mallya, an industrialist active in liquor business under UB group, promoted his airlines patterned on 'Jet blue'. He leveraged his well established 'Kingfisher' brand of beer and promoted 'Kingfisher Airlines' with the tag line 'Fly the

Good Times'. The airlines offered premium features at competitive prices, but positioned itself in the premium segment by offering value added services. At the same time, Royal Holdings of Nevada launched a low cost airline – Spicejet. The launch was 'spiced up' with fares as low as Rs. 99 for the first 99 days[14]. They had a record-breaking utilization and a good entry into the market. With Spicejet, Air Deccan's low priced revolution to counter the train's AC traveler and internet booking system got a major boost and acceptance from the customers across India. This was followed by launch of two more low cost airlines: Go Air in Oct 2005 and IndiGo Air in August 2006. GoAir was promoted by Wadia group of companies and operated with a very small fleet of aircrafts operating in Southern and Western India. It started off with offering 10000 free air tickets and gradually established itself as a low cost airline for 'Smart People'. Their load factors were lower initially, but revived up to 86% in January 2007. Their main strategy to cut costs was supported by internet booking system and efficiently serving lesser number of routes. Though currently having a market share of around 2%, GoAir plans to expand its fleet size to 18 by March 2009 and to 34 by 2011. This shows the expected growth rate in low cost airline is much higher than the current 50% p.a. IndiGo was promoted by Interglobe Enterprises and was the last to enter the low cost segment in August 2006. The strategy adopted by IndiGo was to focus on a single type of airplane, fare, customer service, and route. They used new Airbus A320-200 aircrafts and followed the internet booking system as well as promotional fares for increasing the utilization.

In December 2005, Paramount Airways was launched as airline in India with the New Generation Embraer 170/190 Family Series Aircrafts. Promoted by a pilot and an industrialist Mr.Thiagarajan, Paramount was positioned as a unique airline which offered premium service – exclusively business class aircrafts – coupled with incredible economy. However, they kept away from the congested airports and only operated on unconnected airports primarily in South India. Paramount was also looking at an all India presence through organic growth, but till date they have not officially confirmed which airline are they aiming to acquire or tie up with.

[14] www.spicejet.com

5.5.3 Market Expansion

Within 2 years, the Indian skies started to witness a sudden increase in the number of passengers mainly fuelled by the introduction of these four low cost airlines. Their promotional offers converted the pricing game into a price-war by 2007, and every carrier was running at a reasonable utilization but bleeding heavily. However, this saw an unprecedented increase in the first-time travelers to travel by air, thus increasing the size of the pie for everyone to cater to. This is evident from the sudden surge in growth rate – from around 13 % in 2004 to 27% in a 2005. The domestic sector was pushed up further to 28% in 2006. (Exhibit-II)Exhibit-II shows the growth of passengers traveling on the domestic sector.

By 2006, the competition became more intense and the market witnessed 9 major airlines all positioned in full service or no-frills airlines. The positioning of different airlines can be seen in Exhibit-III.

5.6. Review and Repositioning

By the end of March 2007, Air Deccan had cumulatively carried 9 million passengers. The increase was in steps from 0.4 million passengers in 2003-2004 to 4 million passengers in 2005-2006.

5.6.1 Review and Re positioning

Dr. Mallya and his team reviewed each and every dimension of the company's operations and strategy, and repositioned the airline as a premium airline in the low cost segment. The dimensions reviewed were:

- The purpose and philosophy of the common man's airline
- Company's identity, branding, logo and industry position
- Autonomy, ownership and synergy vis-à-vis Kingfisher Airlines
- Service concept, supply chain management, out sourcing and staff support
- New business initiatives like Maintenance, Repairs and Overhaul (MRO)
- International operations
- Routes and Schedules
- Pricing and financial performance of Air Deccan and turnaround

The initial expectation was that working closely with Kingfisher would enable them to save costs to the tune of Rs. 3 billion.[15] The airlines colour scheme changed from blue and yellow to red and white, the colours of Kingfisher Airlines. The staff was expected to be trained. The old ATRs and A 320s were to be replaced by new ones. Check in was to be managed by the company's employees and not by outsourced staff. It allowed telecheck in and reservation of seats. The fares were increased to reflect the costs. The name of the airline was changed to Deccan and the tag line was 'Simplify Deccan'. The following statements of Dr. Mallya point to the nature of relaunch

> …We are planning to exploit the low hanging fruit – opportunities that exist as soon as possible, so that the financial performance of both the airlines can improve significantly. What is clear is that we will not sell tickets at a loss any more or that there will be no immediate fare hikes…[16]
>
> Four years ago Deccan revolutionized Indian aviation when it took to the skies in 2003. Now it takes the revolution forward by upgrading its product and showcasing a new look. The new Deccan is committed to on time performance, customer care and passenger friendly initiatives. Deccan is poised as a vibrant, energetic and dynamic airline promising its passengers increasing value at every touch point. Going forward Deccan will continue to straddle and balance affordable fares with focused passenger care ensuring a distinctly enhanced travel experience for Deccan passengers. [17]

[15] The Hindu, June 2, 2007
[16] The Hindu, June 2, 2007
[17] Simplifly Deccan, Press Note Oct 29, 2007 www.airdeccan.net

The new look Deccan unveiled its new positioning and rebranded avatar by putting up the following comparative table on their media release.

Earlier	Now
• Low-cost airline	• Value-based low cost carrier
• Outsourced airport staff	• Deccan employees
• Limited menu	• Enhanced menu (soon hot meals to be provided onboard)
• Paid Water	• Complimentary water
• Blue & yellow crew uniform	• Red & white crew uniform
• Bare hand logo	• Kingfisher (bird) logo
• Cotton upholstery	• Leather upholstery
• Normal coaches	• Luxurious coaches
• No refund for cancellation	• Customer friendly cancellation policy has been rolled our recently
• In case of any flight cancellation	• Can now board next available Kingfisher flight

5.6.2 Top Management Changes

Mr. Warwick Brady, COO, Air Deccan, decided to move on after completing two years at the company. In June 2007, Mr. Anand Ramachandran was appointed as Vice President Finance. He joined the enterprise with ten years experience in Jet Airways. In Air Deccan he was to be responsible for Strategic Planning and Finance. In July 2007, Nick White with 30 years experience in aviation Industry was appointed as Deputy Chief Operating Officer – Technical, He had worked with Britannia Airways, a UK based airline. The airline was re- branded as Thomsonfly when it mover to low cost airline status from a full service carrier. Mr. White was responsible for the engineering and maintenance of the entire fleet of the company operating from 25 airports.

6. Analysis

6.1 Enterprise Choices and Implications

6.1.1 More Congregations and Less Cultivation

The developments in Air Deccan point to certain imbalances across the responses of Air Deccan in meeting the challenges of a start up and sustaining the enterprise. In four years the original design of the organization changed and so did the aspirations of the entrepreneur. From a visionary 'common man's airline' to mercenary 'the profitable airline in its segment' is a significant departure. While captain Gopinath, congregated the competences to take off, he did not provide the organization time to cultivate its own base of competitive competencies. The competencies supporting the innovations *did not belong* to the enterprise. They were outsourced. They could easily be copied and the base of initial advantage nullified.

The move from helicopter charter to Airline service meant a significant discontinuity in terms of clients, support service, infrastructure and pricing for Captain Gopinath, the entrepreneur. He had to learn and respond to the managerial challenges relating to these discontinuities. He was enabled in this by the experience of existing private and public airlines, software companies that could take up the e-commerce assignment, call centres etc. While the customer support encouraged the entrepreneur to expand, the internal preparation needed to expand in the face of competition required that the company provided itself time for learning and balancing. The company tried to secure both first mover advantage and fast mover advantage. While the first mover advantage did come by, the fast mover advantage did not. With every seat sold, the company lost Rs. 500. With the increase in the volume of traffic, the losses mounted. The very low price position and the already booked seat status prevented the company from recovering the additional costs that could happen as a result of delays in the flight landing and take off. The Re. 1 ticket did greater harm than good to the company. The enterprise moved faster than it could manage. It didn't receive sustained environmental support for its strategy. As a result, the entrepreneur lost his aspirations. The entrepreneur came to be guided by the aspirations of the late strategic investor.

6.1.2 From hinterland to Trunk routes: The ill timed stretch

Capt. Gopinath's aspirations of serving the common man could be only realized where he could find the common man and help him fly. The Indian population traveling between majorities of the cities was finding it difficult to travel at short notice and emergencies. The strategy of entering the airline industry through secondary cities did make lot of sense. It also supported the economic logic of achieving high seat-utilization rates (due to non-competition from established players) from the very start of operations. Being the only operator in certain cities, they received favourable support from airport authorities. They could adhere to the schedules and turnaround time targets. This helped achieved Air Deccan in sharply increasing its market presence in terms of passenger traffic and also provided an opportunity to overcome the learning challenge. The right approach from here would have been to leverage on the learning from the hinterland routes, expand into more such routes and transfer the best practices from the earlier routes to new ones. The learning from operations between the secondary towns would have helped them achieve even higher efficiencies and further cash to support their operations in case of price war with the already mushrooming low cost carriers (LCCs). However, Air Deccan chose to shift gears within just six months of operations and entered the domestic trunk routes with much fanfare.

Within a very short span, Air Deccan started operating its flights in competition with full service airlines. The trunk route attracted the business traveler. This segment did not have prior bookings like the hinterland family travelers and hence the advance money on which the company was operating earlier, started drying up. This unexpected turn of events, mainly triggered by the trunk route strategy, should have ideally pushed Air Deccan to introspect and consolidate operations, but the contrary happened. But Captain Gopinath's aspirations forced it to stretch itself by reducing costs to a further low and increasing the flights to cover largest number of airports in the country.

6.1.3 New Capacity plans and Orders for Planes: The unmanageable stretch

In 2005, while the enterprise was still struggling with its operations on the trunk routes, Air Deccan decided to expand without consolidating its operations in the existing market. It placed an order of over 60 new aircrafts (between June 2005 and January 2006). This new fleet was to be developed over the next 5 years and would enable the company to sustain higher volumes – a necessary parameter for their low cost model. But, the new capacity plans were made on pure economic logic and did not have any rationale since they hardly had an expertise to manage the fleet of around 15 planes before the expansion. Around the same time, there were 5 other airlines launched, of which 3 were in LCC segment (SpiceJet, GoAir, IndiGo). Though they were attracted towards the LCC due to the high penetration achieved by Air Deccan, they were aware of the pitfalls of explosive growth and started expanding slowly. In a way, the explosive and proactive growth plans in Air Deccan were providing a learning experience to the other LCCs, which started growing slowly, but never incurred as heavy losses as Air Deccan. In a nutshell, from the capacity expansion plans of Air Deccan, it was clear that in order to sustain the low cost model, they were going in for an expansion that was unthinkable for a small company and this had to be fuelled with raising appropriate amount of funds. Since the promoters could not pump in any more funds, they moved towards equity market. The trunk route strategy pushed Air Deccan towards very high operating expenses. With the increased lease rentals and maintenance costs of the jet aircrafts, the losses mounted. Combined with the fuel expenses, the operations consumed 72% of the income as fuel, lease and maintenance costs. By November 2005, the operating expenses jumped to 123% of their total income[18], thus pushing it towards the only option left – to go public.

6.1.4 The IPO and the signal for introspection

For a common man's airline with a large base of beneficiaries, raising resources for its aspirations should not have been difficult: but, the IPO of January 2006 could muster only 84% of the planned funds and had to extend the IPO by another three days. This signaled shortage of support for Air Deccan (and Capt. Gopinath's aspirations) from some corners. The retail investors were not ready to lend their support. Though the IPO helped Air Deccan to just garner enough funds, but the worst fears of the investors came true when the listed company reported heavy losses for the first fiscal after going public. The company officials, who initially expected the company to break even in 2007, blamed the losses on the increased competition in the LCC segment and revised their expectations of breaking even by 2008. The market did not respond well to this performance and within no time, the stock dived pushing the price down by over 40% to Rupees Ninety only.

[18] IPO Prospectus (2006) p. 169

6.2 Public Policy Response

A peculiar feature of the regulatory environment was the dual presence of a state: as a regulator as well as in the form of state-owned competitive entity (Indian). Air Deccan's social aspiration of enabling the common man to fly was never the mandate of either the regulatory authority i.e. Ministry of Civil Aviation or Indian. In fact, when Air Deccan went on a price-cutting spree, Indian Airlines was one of the affected parties with profits in 2005-06 nose diving. Indian Airlines quickly reacted by merging itself with the international state carrier Air India to form the country's largest carrier – Indian.

The regulatory environment also played a role through maintenance of airports and other facilities like parking provided to the scheduled operators. However, the explosive growth witnessed by Air Deccan could not be supplemented by complementary expansion of the infrastructure facilities. On the contrary, the increase in traffic led to heavy congestion on the airports and led to a heavy increase in fuel costs, overhead expenses like ground staff and several cases of customer dissatisfaction due to delayed flights. Delays meant upsetting the turnaround time and scheduled commitments. This made Air Deccan the less preferred airline over other options.

6.3 Short Term Advantages of Innovations

The innovations of Air Deccan demonstrated some of the effects identified in the first section. The enterprise eliminated several activities viz. serving food in their flights, providing hotel stays to cabin crew, this elimination helped them to cut down on costs in a major way. The combination efforts of Air Deccan included their innovative initiative which required the pilots to conduct ground inspection of airplanes. This helped them cut down on ground maintenance crew at several airports where the frequency of flights was not very high. The also used the infrastructure for multiple purposes. The aircraft exteriors, interiors, ladders and ticket prints were seen as display boards to advertise and earm additional income. Substitution was done by way of internet booking system, which substituted the existing ticket agents' network and thus helped them to not only gain control over the bookings, but also enabled them to start innovative pricing schemes which helped them gain more revenues well ahead of the scheduled flights. This mechanism was adopted by Air Deccan by changing their recruitment criteria from experienced air-hostesses to fresh graduates from various local institutes engaged in teaching service skills in aviation. This was a good move to take a share out of the huge unemployed and unskilled population of youth who were ready to take up short term courses and take their first work experience at Air Deccan. Within no time Air Deccan redefined the glamorous high paying profile of an air-hostess to a middle-class young woman who treats her job more as a necessity than a desire.

Though this type of a subsidization is not apparent in Air Deccan, there is a possibility that some of the routes on which Air Deccan was making some money, might have subsidized other routes where they were losing money. Another possibility of subsidization could have been out of their chartered helicopter business, but many details on the way costs have been allocated are not available currently.

It appears that the airline did not benefit from these effects significantly and sustainably. ‘Space for Ads’ greeted the passengers more often than the ads of brands or products. It shows that the ‘display board’ idea was not viewed favourably by the advertisers. Probably, there were lower cost options to reach the ‘common man’ than the airline space. Then there was the risk of brand dilution if a high profile brand was advertised on a ‘common man’s airline’. While Air Deccan was keen on building on the positive side of the ‘low cost conferring’ innovations, it did not appreciate the negative side. Air Deccan could not keep all the advantages of innovations to itself. The innovations were imitated and they became the industry features.

6.3.1 Rising aspirations of Employees and attritions

While the innovative HR provided opportunities to freshers and relatively less experienced professionals to work for an airline, with the success of the concept, their aspirations for higher pay and better job conditions increased. The low cost positioning and the demanding working conditions came in the way of realizing their aspirations. Hence they left to join other airlines or pursue other careers. Air Deccan faced severe problems of attrition. This put Air Deccan on a continuous congregation path. It couldn’t cultivate its own base of competencies and sustain the enterprise.

6.3.2 Non Target Beneficiaries and Non sustainable Pricing

The company chose to bench mark it’s pricing with the first AC fare and tried to entice the passenger to shift from Rail to Air. It did not take own costs, the value it generated to the passengers and the competitive offers available to the passengers. As a result the more it sold the more it bled. The business travelers used the opportunity to save money and obtain greater value from the transaction than the company. We do not have data on how many of those who availed the offers were first time fliers. If they were regular fliers who saved money, then the organization has neither achieved its purpose not got value for its offer. A mascot like that of R. K. Laxman's common man, prompted the company to announce the one rupee fare. This was more emotional than economical. The company had to incur the additional cost of advertising the offer. This brought pressure on other airlines to bring their own fares down or introduce schemes that would compete effectively with the offer. The entire airlines industry lost in the process. One of the initial steps, Dr. Mallya took after coming on board was to streamline the pricing systems. He raised the fare and helped the industry as a whole.

6.4 Absence of Feedback and Learning

It appears from the pronouncements of the MD that there was a blinding effect. The MD was overwhelmed by the public response to the offer and did not look at the financial viability of the model. He was not alerted by the deteriorating financial performance and the burden to meet the obligations. The congregation path left the MD looking for supporters all the time. His assumption was that if there was a large volume response, all other supports would fall in place automatically. The anxiety with which the Kingfisher deal was gone through indicated that it was too late for the entrepreneur to retrace and recover. Despite humble pronouncements, it was clear to analysts that Dr. Mallya would not play a silent role and the design of the organization would undergo a major change.

The enterprise had imposed a constraint of twenty minute for turn around to maximize the air time of the plane. The scheduling and the economics of operations were based on this. This constraint turned out to be too artificial in places where it had to compete with other airlines for airport infrastructure, position in the take off and landing queue and security clearances. It did not enjoy any preferential treatment at congested metro airports. In hinterland airport, where it was the only airline, this question did not arise. Owing to the environmental constraints, it could not put its acts together and failed to live up to its own schedule. The flights were delayed and the image got tarnished. The fuel costs increased as the airline circled around metro airports, but there was no way of recovering this additional cost from the passengers who had already paid their fare.

6.5 Lack of Belonging and Rescue by the Beneficiaries

Air Deccan was left to face and sort out its crisis all by itself. The company had appointed a merchant banker to scout for sources of funds. The potential investors did the due diligence and did not decide in favour of the company within time available to the company. The merchant banker followed a conventional way of scouting for funds. It did not explore alternatives like mobilizing the funds with the beneficiaries, the first time fliers. The innovation of Captain Gopinath had benefited several million passengers and several new suppliers of services. They did not rise to the occasion and support the airline by making individual contribution to a bail out fund. They did not show anxiety that the common man's airline may collapse if it was not bailed out. Similarly the suppliers did not postpone their demands and enable the company to settle down to pay their dues. They also participated in transactions that were economically viable to them. They did not belong to the innovation movement of Air Deccan. They looked at it as an opportunity to satisfy their aspirations and did not develop a sense of belonging to the innovation. The message appeared to be, "If you do not, some one else will". The experienced and fresher left when they found other options to satisfy their individual aspirations. They didn't stay back and sacrifice to the entrepreneur's aspirations.

The company is credited with bringing the concept of low cost airline to India. The concept, however, was not new to the world. The adoption of this innovation necessitated that it innovate in developing mechanisms to save costs and incur as minimum a cost as possible. It was able to innovate around the roles of the airhostesses, the cock pit crew, and the channels of distribution. It had limitations in innovating around the equipment, compensation to the pilots, interfaces with airport authorities. The company appeared to have missed the opportunity to innovate around processes that would make the 'common man's first time flying experience' cherishable. This would have sustained loyalty on competitive routes in the next occasion of flying. The in flight experience was to be tolerated because the passenger had paid a lower price. More than once the passengers were reminded that they were flying by a low cost airline. It was observed that the customers did not buy the expensive food items on sale in the flight. Or they economized by buying less. Despite not allowing outside food, the passengers were seen opening their tiffin boxes and consuming the contents. As a result, the company could not exploit the potential for additional revenue fully. The first time flier was left to himself or herself. This therefore did not translate into the support they would have provided to the IPO of the company. 'No frills' should not have meant 'no concern or care' towards the customer.

7. Discussion

Above analysis of Air Deccan gives rise to the following managerial themes in the context of entrepreneur and enterprise management.

7.1 Encyclopedic Entrepreneurship

An entrepreneur sees an opportunity vis-à-vis his/her aspirations and takes actions to convert that into a business proposition. However, entrepreneurs may differ not only in terms of their sense about the quantum of opportunity but they may also differ about the qualitative characteristics of opportunity. Social entrepreneurship and commercial enterprise represent two ends of the entrepreneurship spectrum. The vast opportunities made available by opening up of emerging economies have accelerated the search for a viable business mode. This has led to a rising awareness about the need to gel business objectives with social objectives and businesses are acquiring social overtones. In fact the idea of business enterprises backed by high social aspiration viz. Gramin Bank, Arvind Eye has received a further fillip by contributions from researchers (Prahalad, 2006) who present this as a simple case of tapping customers at the bottom the pyramid (Prahalad, 2006). The rise of emerging economies has opened up vast opportunities at the bottom of the pyramid. However, while low cost products or services serve to attract and include left out customers they also create an economic problem as they present an opportunity to existent customers with capacity to pay to save on their consumer surplus. This may create tensions for the sustainability of the enterprise.

Tapping these opportunities requires innovations- both product and processes- which are build on ideals of social enterprise yet are sustainable as a commercial enterprise. Since such products and services may appeal to customers belonging to both the lower and upper segments, they by their nature are aimed at non-specific, all-embracing, and all inclusive customer segments. We call these organizations as 'encyclopedic organizations'.

As discussed earlier, according to us, such types of organizations occupy space along the continuum of social and commercial enterprise. However entrepreneurs who aspire to fulfill a social need through commercial business ventures fail to appreciate the complexity and diversity of such tension. An entrepreneur spots an opportunity to include a left out consumer segment and creates a business model to tap this opportunity driven by certain aspirations. These aspirations especially the social component of these aspirations acts as the mooring for such enterprise. These aspirations are also influenced by environment support that can possibly be available to these enterprises. In fact, it is these perceived and actual qualitative differences about the relationship between the enterprise and the environment that drives the choice and sustenance of the business model (strategy) of the new business. The success of encyclopedic entrepreneurship depends on correct configuration of product/services, processes, technology, pricing and ability to garner environment support. Though the bottom of the pyramid segment hitherto unexploited has low entry barriers due to immense opportunities available for product/service innovation, sustenance of the model requires commensurate innovations in systems and processes and environment support. We present below a matrix which highlights the contrast between the social entrepreneurship, encyclopedic entrepreneurship, and the commercial entrepreneurship. It is apparent from the matrix that the encyclopedic entrepreneurship occupies space in between the two conventional form of entrepreneurship-social and commercial- discussed in entrepreneurship literature.

7.2 Sustenance through Co-Sharing Aspirations

The new entrant versus incumbent debate in strategy literature ascribes difference in their performances to differences in innovation abilities (Rosenbloom & Christensen, 1994), adaptability (Leonard-Barton, 1992), and motivations (Penner-Hahn, 1998). In contrast, new businesses especially the one falling in the category of encyclopedic entrepreneurship may fail not because of competency alone but more so because of their failure to manage match between the aspirations, competencies, and the environment. Previous research has examined this linkage in terms of characteristics (for example, tension defined as sustained efforts despite interruptions) (Gartner, 1985), processes that build or define it, and behavioral outcomes. The entrepreneur starts with by including a segment of customers left out by the existing offerings. Since the challenges of serving this segment are unique and different, he must also include other stakeholders like suppliers, investors, regulators. This means that the aspirations need to be articulated in terms of viable business propositions. This will ensure co-sharing of the aspirations by the other important stakeholders. It is the entrepreneur’s responsibility to took at the totality and be responsive to all linkages from the dynamics of the interaction between the firm and the environment.

Three variants of entrepreneurship

Dimension	Social Entrepreneurship	Encyclopedic Entrepreneurship	Commercial Entrepreneurship
Profit objective	Altruistic (No profit-no loss or minimal profit)	moderate profits for sustenance	Commercial (maximization of profit)
Social component in the offering	High	Medium	Low
Means to attain objectives	Products /services and subsidies	Embedded in processes, products and services. Pricing to recover costs and realize a sustainable margin	Products, services and pricing appropriate with value delivered
Means of garnering support from the environment	Appeal to emotions and societal causes	Appeal to both emotions and economics	Appeal to product and service differentiation and delivery of value
Nature of Sacrifice from the stakeholders	High	Medium	Pay if only you are satisfied
Customer Base	Subsidy seeking - Left out by the market forces	Paying and Subsidy seeking -	Paying
Sustenance requirements	Realize and sustain emotional appeal Quality Delivery	Balance Emotion and Economics Competitive Delivery	Sustain Differentiation

The sustainability of start-ups depends upon the extent of support available from the environment. In case of social enterprises, support is available from the environment in the form of subsidies, whereas for commercial enterprises, environmental support is extracted in the form of consumer surplus for the products/services offered by them. In contrast, none of these supports are available to encyclopaedic enterprises. The key to sustainability of such organization lies in their ability to ensure adequate cash flows and create lock-ins arising out of co-sharing of aspirations. In Deccan's case, while it was initially able to excite the environment about its aspirations to fly the common man, it failed to make other stakeholder co-share its aspirations. Thus when it required environment support to bail it out, the support was not available even from the beneficiaries of its aspirations. There was no ownership, no alignment, and no support for the aspiration of flying the common man.

7.3 Managing First and Fast Mover Advantages by start ups

Entrepreneurship entails combining of resources to initiate new business activities (Schumpeter, 1934). Resource based theory suggests identification and accumulation of required resources (Barney, 1986, 1991) and capabilities that would confer competitive advantage to the enterprise. Since the entrepreneur may lack certain resources and skills, they need to be sourced from the environment. He/she needs to bundle these resources and skills, either acquired or originally possessed in a way that the bundle becomes rare, valuable, not substitutable, and inimitable (Barney, 1991). A failure to do so can lead to erosion of initial competitive advantage for the start-up. The entrepreneur opens up a new segment – a new profile of customers- by including a segment left out by the existing offerings. This gives him a first-mover advantage. Since the size of opportunity is huge and the idea promising, he is in better bargaining position vis-à-vis the other stake holders. He tries to exploit his first mover advantage by bargaining on cost. To build on his low cost high volume model, he also needs to move fast not only to tap the large size of opportunity but also to accumulate resources, put in place systems and processes, and to garner support from the environment. However, as the opportunity also becomes apparent to others, there is a threat of increase in competition from the late entrants. To succeed the entrepreneur needs to create entry barriers by also moving fast in creating intangible bases of competitive advantage. In Deccan's case, while it did create innovations to support its low cost model, they were copied by its competitors very fast. The problem got compounded by the fact that its own employees and suppliers deserted it as no intangible barriers to lock them in were built. The start ups can succeed only when it is able to combine first mover advantage with fast mover in creating intangible competencies. The transition from expansive strategy (inclusive) to encompassing strategy (locking in by creating boundaries around them) is the key to success.

7.4 Dynamics of Enterprise and its Environment

Entrepreneurship literature with its focus on the impact of entrepreneurship (Schumpeter, 1934), the entrepreneur itself (Casson, 1995), and entrepreneurial management process (Burgelman, 1983; Stevenson & Jarillo, 1990) has failed to address comprehensively the issue of dynamic interaction between the entrepreneur (his aspirations), competencies (organizational processes), and the environment. The dynamics can be visualized as follows. The entrepreneurs utilize their initial stock of resources and capabilities to present their strategy and garner support from the environment. The environmental response to this depends on the match between the aspirations of the actors in the environment – customers, technology providers, investors, public policy makers and significant others- and the offer made by the enterprise. This response can be seen as a feedback to the entrepreneurs on both the aspirations and their strategy. The entrepreneurs learn from the feedback and make the needed corrections or augmentations. The feedback, especially the one which demands correction need to be recognized, interpreted, and should lead to adjustment of capabilities (McGrath, 1995). This process builds new capabilities and resources in the enterprise. This would modify the strategy or build new one. Failure to learn and modify leading to a continued mismatch between the enterprise offer and the requirements of the environment will make the aspirations of the entrepreneur unsustainable (Fiol and Lyles, 1985). However, for encyclopedic start-ups, initial success backed by strong aspirations of the entrepreneur may breed a kind of complacency and comfort. Thus firms may fail to pick up even very apparent signals from the environment and initiate corrective action.

7.5 Competence Management in Start-ups

In start ups, capabilities develop in a manner which is envisioned and deemed appropriate by its principal decision maker. Encyclopedic entrepreneurs venture in areas which are novel, left out segments by both social and commercial enterprises; they are able to congregate capabilities to produce a desired output and to improve product/services offered by them. However, more often than not, new start-ups fail to develop capabilities to cope up with the changes in the environment (Zahra et.al. 2000). These have to be developed in response to new learning from the environment and internal pressure for change In fact these types of capabilities take time to be cultivated. Air Deccan brought in many new changes in ticketing, training, servicing etc. to serve the new segment of left out customers but it failed to respond effectively to environmental changes. When competition increased and its model was imitated by the late entrants, it could not design an effective response to counter their moves and consolidate its position in the market. Its own expansion plans placed it on the path of continuous congregation. It could not cultivate a sustainable competence of its own. Its character changed completely when a new strategic investor brought in his aspirations and design. Balancing the drive for congregation and cultivation of competencies is a managerial challenge which start ups should recognize. This may mean slowing down on some aspects of growth.

8. Conclusion

Study of start-ups requires focus on opportunities, entrepreneurs, and their mode of organizing (EcKhardt and Shane, 2003). This trilogy acquires new meanings and dimensions for encyclopedic enterprise as discussed above. For such endeavours, spotting an opportunity is probably the least difficult part of the process. Managing entrepreneurial aspirations through co-sharing, adapting to environmental changes by identifying, developing, and protecting key competencies by creating intangible lock-ins are more important challenges to be tackled. Air Deccan as an enterprise survived but Air Deccan as envisioned by Captain Gopinath did not hold up to the challenges it faced. In the end nothing common remained about the Common Man

EXHIBIT-I

Milestones in the History

Month/ Year	Happenings within Air Deccan	Happenings in Environment
1933		Aviation Department of Tata Sons Ltd established; Tata Airlines flew 160,000 miles and transported 155 passengers in the first year
1953		Air Corporations Act enacted; Nationalization of Air India and Indian Airlines
1991		Sahara Group launches Sahara Airlines
1993		Jet Airways launched; NEPC-Damania and East-West Airlines launch operations
1994		Air Corporations Act repealed, enabling private operators to provide air transport services; Jet, Sahara, East West, Damania given scheduled operator status
1996		East-West Airlines grounded after its MD shot dead surfacing alleged underworld links
2000		Sahara Airlines rebranded as Air Sahara
Aug-03	Air Deccan launched as India's First low cost airline, connecting secondary routes (i.e. non-trunk route destinations)	
Jun-04	Air Deccan announces plans to enter domestic trunk routes immediately	
Jul-04	Air Deccan drops rates further	
Dec-04	Air Deccan drops rates on long-haul sectors	
May-05		Liquor Baron Vijay Mallaya launches Kingfisher Airlines; Royal Holding Services of Nevada launches SpiceJet as a low cost carrier
Jun-05	Air Deccan announces 1000 tickets every month at Re.1; Renowned cartoonist RK Laxman's lends his most famous creation "Mr. Citizen" as brand ambassador for Air Deccan	
Oct-05		Mallya tries to buy competitor Air Sahara; Bombay Dyeing and Britannia promoters launch GoAir as a cheap-ticket air travel service
Dec-05	Air Deccan connects largest number of airports; Connects 46 destinations by 180 flights; Fleet size of 22 (A-320s+ATRs)	Jet Airways connects 44 airports, Indian connects 41, Alliance air connects 31 and Air Sahara connects 24 airports
Jan-06	Orders 30 A-320s and 30 ATRs	Jet announces it will buy Air Sahara

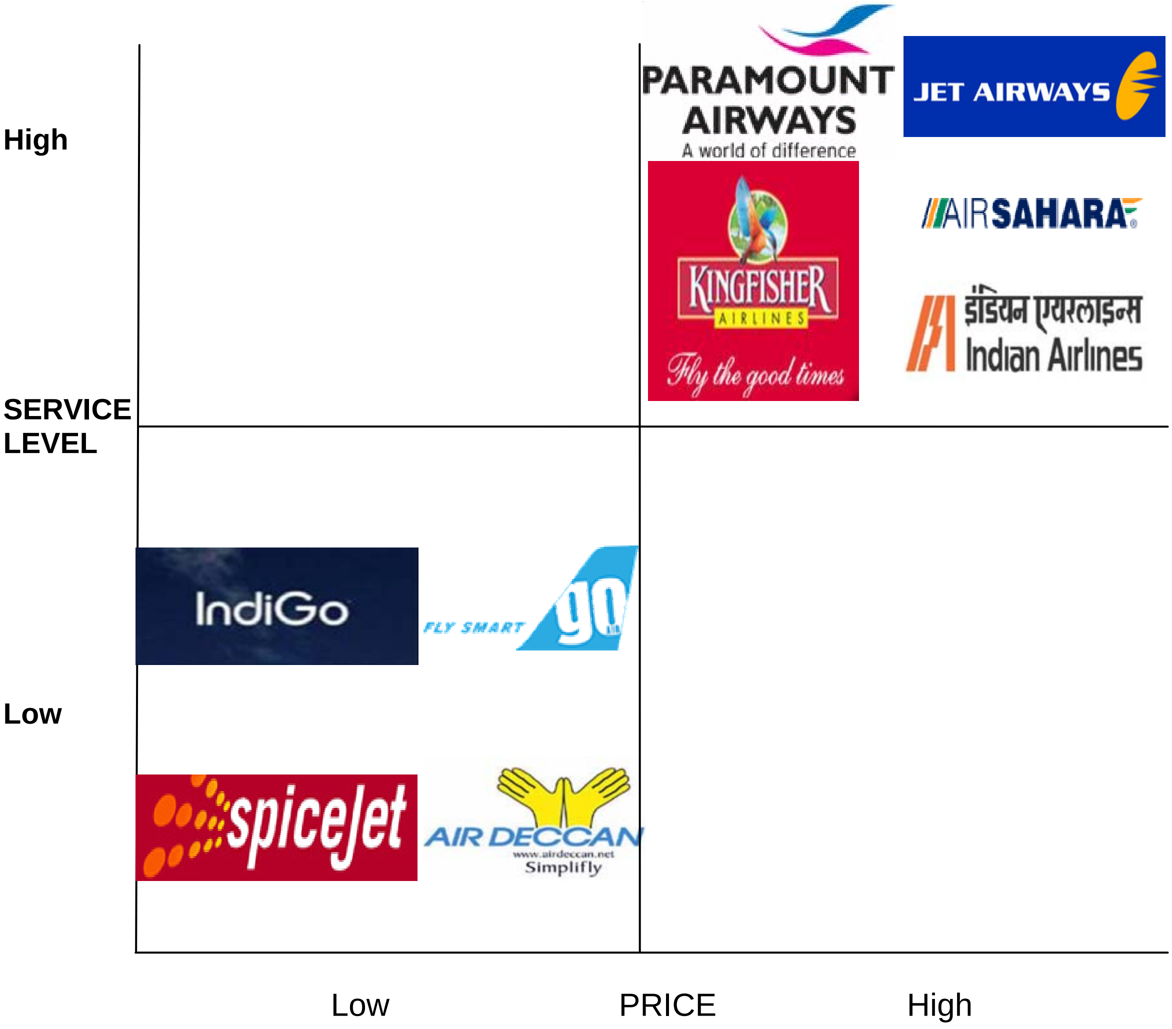
Month/ Year	Happenings within Air Deccan	Happenings in Environment
Mar-06	Air Deccan increases market share to 13.6%; moves up to 3rd position after Jet and Indian; Connects 33 destinations by 111 flights; Fleet size of 5 A-320s and 12 ATRs	
Aug-06		InterGlobe Enterprises launches IndiGo as a low cost carrier
Sep-06		All airlines report financial performance with losses or a nosedive in profits
Dec-06	A Cash-strapped Air Deccan hunts for investors	Kingfisher's Mallya meets Air Deccan's Gopinath and suggests a merger
Feb-07	Air Deccan shifts to Raddix Reservation System; Several cases of overbooking surface	Air India and Indian merge to form India's largest airline
Mar-07		Anil Ambani (Reliance-ADAG) fishes for controlling stake in Air Deccan
Apr-07		Legal pressures force Jet into buying Air Sahara
Apr-07	Connects 65 destinations by 350+ flights; Fleet size of 19 A-320s and 24 ATRs	
May-07	Mallya pips Ambani to buy 26% of Air Deccan for Rs. 5.5bn @ Rs.155 per share; UB nominees constitute 25% board of directors	
Jun-07	Mallya announces possible fare hikes in Air Deccan	Jet Airways and Kingfisher express interest to acquire SpiceJet
Jul-07	Fare hike by Rs. 500 across different routes	
Aug-07	Changes in the management	
Sep-07		Public offer by Mallya for 20% additional holding in Deccan
Oct-07	After the open offer oversubscribed, Mallya controls 46% of Deccan’s shareholding; Rationalization of operations of Deccan and Kingfisher	
Nov-07	Launch of a new look Deccan with similar branding as Kingfisher	

EXHIBIT-II Growth in Domestic Sector

Year ended 31 March	Domestic Sector Passenger (millions)	Year-on-Year Growth
1996	10.4	
1997	11.2	7.7%
1998	11.5	2.7%
1999	12.0	4.3%
2000	12.7	5.8%
2001	13.7	7.9%
2002	12.8	-6.6%
2003	13.9	8.6%
2004	15.7	12.9%
2005	19.9	26.8%
2006	25.5	27.9%

Source: Brady (2007), Airlines 2007: Opportunities & Challenges, Presentation at FICCI

EXHIBIT-III Positioning of Different Carriers



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