

Jet Airways flew for 26 years. The industry's economics outlasted it

Published by OneRightAI · 5 min read

Maxim: *With few exceptions, when a management with a reputation for brilliance tackles a business with a reputation for poor fundamental economics, it is the reputation of the business that remains intact. —*

Warren Buffett

Investors love a talented manager. But some industries grind down even the best of them. Before you back the jockey, check the horse.

Before you ask how good the management is, ask how good the business is.

On 5 May 1993, Jet Airways flew its first passengers. Over the next two decades it became the airline that business travellers in India preferred: polished service, a frequent-flyer programme people valued and a reputation for punctuality. It listed on the stock exchanges in 2005, bought Air Sahara in 2007 for about ₹1,450 crore, and by the third quarter of 2010 was India's largest airline, with 22.6% of domestic passengers, according to its [Wikipedia history](#).

On 17 April 2019, it stopped flying. At its peak it had operated more than 120 aircraft and employed more than 20,000 people; by the end it owed banks about \$1.2 billion and lessors were trying to take back its planes, [Al Jazeera](#) reported.

Jet's fall had many causes, and some were its own: expensive acquisitions, a late response to low-cost rivals, and decisions that lenders and investigators have since examined. It would be too neat to blame the industry alone. But Jet was not an isolated accident. Since private airlines were allowed to fly in India in 1994, at least 27 scheduled carriers have shut down, been acquired or merged, according to official data reported by [PTI in Outlook Business](#). That is roughly one a year. The names include ModiLuft and East West in the 1990s, Kingfisher in 2012, Jet in 2019, and Go First, which sought insolvency protection in 2023.

When so many different owners, with different strategies and different levels of skill, meet the same end, the common factor is the business itself.

The horse matters more than the jockey

Warren Buffett wrote the line at the top of this page in his [1980 letter](#) to Berkshire Hathaway shareholders, while explaining why he generally avoided turnarounds. A talented team can improve a weak business at the margin. It rarely changes the economics underneath: how much capital the business needs, how much pricing power it has, and how fiercely competitors cut prices.

Airlines are the clearest case, and Buffett learned it the hard way. In his [2007 letter](#) he described the worst sort of business as one that grows rapidly, needs significant capital to grow, and then earns little or no money. "The airline industry's demand for capital ever since that first flight has been insatiable," he wrote, and admitted that he had "to my shame" bought US Air preferred stock for Berkshire in 1989. His half-joking verdict: a farsighted capitalist at Kitty Hawk would have done his successors a favour by shooting Orville Wright down.

The numbers back the joke. The International Air Transport Association, the industry's own body, [projected](#) that airlines worldwide would earn a 5.7% return on invested capital in 2024, a good year, against a cost of capital of over 9%. Profit per passenger was about \$6. When an industry's good years still earn less than its capital costs, management skill is fighting the tide.

When a turnaround does work

The same 1980 letter contains the exception that proves the rule. In 1976, GEICO, the US car insurer, was pulled "from the very edge of bankruptcy". Buffett bought heavily into it. He was not betting on a miracle worker. He was betting that GEICO's core advantage, being the low-cost operator in a huge market, had survived its financial and operating mistakes. Jack Byrne, who joined that year, supplied the management skill. The business supplied the economics.

That is the distinction worth remembering. A good business in temporary trouble can be rescued by good managers. A business whose economics are poor tends to stay poor, whoever runs it.

Indian telecom showed the second pattern at scale. India once had about a dozen mobile operators, many backed by large Indian and global groups. After a fierce tariff war that began in 2016, only four large providers were left by early 2018, [Business Today](#) reported. Aircel, whose Malaysian promoter declined to put in more money, went to the bankruptcy court with about ₹15,500 crore of debt. Experienced owners and capable managers could not change the arithmetic of a business where spectrum and networks cost a fortune and customers switch for a cheaper plan.

How to tell the horse from the jockey

The familiar version of this story: a struggling company in a tough industry hires a celebrated chief executive, and the shares jump. Before you buy that story, ask these questions.

1. **Have most companies in this industry earned less than their cost of capital over a full cycle?** If the industry's history is a list of exits, like Indian aviation's 27, the odds are against any single player, however well run.
2. **Does the business have pricing power?** Can it raise prices without losing customers, or do customers switch for a small discount? Airline seats and mobile plans are hard to tell apart; a brand or a network that customers stick with is not.
3. **How much capital does growth eat?** Read the cash flow statement. If capital spending keeps swallowing operating cash year after year, growth is costing shareholders rather than rewarding them.
4. **Is the trouble temporary or structural?** GEICO's problems were its own mistakes, layered on a sound model. A business facing permanent price wars, heavy regulation of prices or a shrinking market has a structural problem.
5. **What would the new manager need to change?** If the answer is "the economics of the industry", that is beyond any one person.

The decision rule is simple. Judge the business first and the management second. A strong business with poor management can be a bargain if better managers arrive. A poor business with brilliant management is usually a poor investment that looks exciting for a while. If you cannot say what protects a company's profits from competitors, a famous name at the top should not reassure you.

Jet Airways had loyal customers, an admired brand and, for a time, the biggest share of India's skies. It still could not escape an industry whose returns fall short of what its capital costs, even in good years.

The lesson is not that managers do not matter. They matter a great deal in a good business. It is that they cannot turn a poor business into a good one, and investors who pay up for the attempt usually pay for the manager's reputation and keep the business's.

Sources

- [Berkshire Hathaway: Chairman's letter to shareholders, 1980](#)
- [Berkshire Hathaway: Chairman's letter to shareholders, 2007](#)
- [IATA: Airline profitability outlook, press release \(3 June 2024\)](#)
- [Outlook Business / PTI: In three decades, one domestic airline on average went belly up every year \(3 May 2023\)](#)
- [Al Jazeera: India's debt-ridden Jet Airways suspends all operations \(17 April 2019\)](#)
- [Wikipedia: Jet Airways](#)
- [Business Today: Aircel bankruptcy and telecom consolidation \(28 February 2018\)](#)

The Virtual AI Author is an AI writer for OneRightAI.

Disclaimer

This article is published by OneRightAI for general information and investor education only. It was written by an AI author and may contain errors or omissions, and facts may have changed since publication. It is not investment, tax or legal advice, and it is not a recommendation or solicitation to buy, sell or hold any security, mutual fund, bond or commodity. Companies, funds and indices are mentioned only to illustrate concepts. OneRightAI is not registered with the Securities and Exchange Board of India (Sebi) as an investment adviser or research analyst. Investments in securities markets are subject to market risks; read all related documents carefully before investing. Past performance does not guarantee future returns. Consult a Sebi-registered investment adviser and a qualified tax professional before making any investment decision. OneRightAI and its authors accept no liability for any loss arising from the use of this information.

Credits and rights

Maxims and quotations are attributed to their original authors and are used for commentary and investor education; their use does not imply any affiliation with, or endorsement by, those authors or their publishers. Facts and data from third-party sources are summarised in our own words and credited with links; all copyrights and trademarks remain with their respective owners. OneRightAI is not responsible for the content of external websites.