The challenges faced by SIA show that it needs to continuously reinvent itself by adding new competencies. SIA must find new inspiration to maintain its differentiation against rivals.
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What ails Singapore Airlines?

It used to be the gold standard among airlines, but new airlines have come on the scene, and the industry as a whole is playing the game better. Competition is sharper. BY NITIN PANGARKAR

The easiest way to make a small fortune in the airline industry, it is frequently said, is to start off with a large fortune.

For years, Singapore Airlines (SIA) stood out as an exception to that rule. It was able to deliver good-quality service and make a profit at the same time. In 2006, I co-authored a book on how SIA had been able to buck the trend and make healthy profits year after year. During its first 40 years, its innovation, superior service and consistently high profitability earned the airline numerous awards. It became the gold standard to which other airlines and air travellers aspired.

But fast-forward another 10 years and the story is markedly different – SIA's financial performance has suffered while the industry has improved overall.

For instance, between 2012 and 2018, the group's revenues improved only slightly from S$15 billion to S$15.81 billion, even with the launch of a new brand (Scoot) during the period. Despite showing a marked improvement, for three of those six years, profits attributable to group shareholders varied between S$229 million and S$410 million, representing slim margins over its large asset and revenue bases.

On an operational basis, for SIA, the breakeven load factor (the percentage of seats occupied by paying passengers) for each of the five years ending March 2013 to March 2017 was higher than the actual load factor, suggesting that the flight operations were losing money.

This mediocre performance is in contrast to the performance of the broader industry, which has recently had some of its best years.

SIA's share price reflects these struggles. After peaking at S$20 per share (just before the Global Financial Crisis), the carrier's share price plummeted to S$9.90 in March 2009. The stock recovered to between S$15 and S$16 for several months in 2010 and 2011, but has remained range-bound between S$10 and S$12.

Equally importantly, while its service remains good even today, the differential between its service and that of other airlines has become much narrower. How did this this former star performerlose its shine?

When SIA was considered the benchmark for the aviation industry, it was one of the few airlines that could buy new planes, financing them through internal funds or in some cases, by issuing debt which was low-cost because of its superior credit rating. This afforded it both lower costs and served as a source of differentiation.

Many other airlines could not afford new aircraft because they lacked the balance sheet strength and/or the good credit rating.

But today, many airlines have as young or even younger fleet – in particular the fast-growing Middle Eastern carriers such as Qatar, Etihad and Emirates.

GOVERNMENT SUPPORT

Factors such as government support, new management with higher credibility, secular growth in air traffic over the past decade and lower oil prices leading to higher profits have enabled rival carriers to narrow the gap.

Other airlines have also improved in other aspects of operations as well. In the past, SIA prided itself on doing some simple things really well. It would generally be on time, less likely to lose your bags and less likely to mess up your meal preferences, among other things.

This hasn't changed, but the broader industry has become much better in this regard. For example, in the most recent punctuality rankings, SIA ranked well among big carriers, trailing only Qantas; but the gap between SIA and competitors such as Qatar, Delta and ANA was miniscule.

Meanwhile, in an effort to cut costs and maintain profits, SIA has pulled back on some aspects of its service, narrowing further the gap with key rivals. The magical "X factor" that distinguished SIA from its rivals has been diluted.

SIA still does many things well, its standard operating procedures (SOPs) are generally very good and its emphasis on safety is very strong and rigorously enforced. But these are relatively minor as differentiating factors and most customers may not even notice that SIA is better in these respects, let alone provide the X factor to justify paying premium fares.

In the past, since SIA derived a good proportion of its revenues from the South-east Asian region, it benefited from the higher degree of regulation, which resulted in higher yields. Yet as regulations have loosened, new competitors have entered the market and grown and price competition has risen, hence the falling yields.

In our 2006 book, we lauded SIA for its excellent cost management. While it is doing this well, notwithstanding its ageing fleet, it may be the yield compression that is posing a big challenge for SIA. The outlook for the airline remains challenging.

One positive aspect is the relative success of Scoot, its low-cost arm, in its first five years of operations. Scoot is competing in a growth segment as people travel more but are also more price-conscious.

Fleet renewal, which could both lower costs and help differentiation – poses a challenging situation. Without the strong profits provided by airline operations, it is difficult to buy new planes without running up debts. This increases the risks in an industry easily impacted by many factors beyond the airline's control.

The environment is also unlikely to be benevolent. SIA's geographical home is moving towards a knowledge economy, which means fewer business passengers flying into and out of Singapore than in the past. At the same time, the development of new long-range aircraft may soon enable passengers to bypass a layover in Singapore.

The challenges faced by SIA show the need for a company to continuously reinvent itself by developing new competencies. SIA must find new inspiration to maintain its differentiation against rivals, and develop new competencies in operating in the budget-airline space.

The writer is an associate professor in the Department of Strategy & Policy at the National University of Singapore Business School. The opinions expressed are his and do not represent the views and opinions of NUS.