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SIA needs to find its X factor again

What distinguished SIA from rivals years ago has become diluted in recent years

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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.

During its first 40 years, its innovation, superior service and consistently high profitability earned the airline numerous awards. But fast-forward 10 years and the story is markedly different – SIA's financial performance has suffered while the industry has improved overall.

Between 2012 and 2018, its revenues improved slightly from $15 billion to $15.81 billion, even with Scoot's launch.

Despite the improvement, for three of those six years, profits attributable to group shareholders varied between $229 million and $410 million, representing slim margins over its large asset and revenue bases.

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

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

And while SIA's service remains good, the differential between its service and that of other airlines has become much narrower. How did this former star performer lose 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 that was low-cost because of its superior credit rating. This afforded it both lower costs and served as a source of differentiation.

BALANCE SHEET

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

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

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

In the past, SIA prided itself on doing some simple things well. It would generally be on time, less likely to lose your bags and less likely to mess up your meal preferences.

The industry has become better in this regard. For example, in 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 minuscule.

Meanwhile, to cut costs and maintain profits, SIA has pulled back on some aspects of its service, again narrowing the gap with rivals. The X factor that distinguished it has been diluted.

SIA still does many things well. But these are minor as differentiating factors, and most customers may not even notice SIA is better in these aspects, let alone provide the X factor to justify paying premium fares.

SIA must find new inspiration to maintain its differentiation against rivals, and develop new competencies in operating in the budget-airline space.

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