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Singapore Airlines: Premium Goes Multi-Brand

As Singapore Airlines (SIA)'s CEO Goh Choon Phong walked through the Changi Airport, Singapore, he remarked to himself how the volume and range of travelers had grown in the last ten years. Indeed, Changi Airport reached a record number of 55 million passengers passing through in 2015. Much of the growth over the past decade had been derived from passengers travelling on low-cost carriers (LCCs).[1] While this segment made up 6% of total traffic in 2005, it had reached about 30% by 2013, and had held at about that level.[2] Travel patterns had changed significantly, especially in this part of the world; the explosion of LCCs in Asia, catering to the more price-sensitive travel demands of Southeast Asia's rising middle-income class, had allowed "people to travel more often, and for a less compelling reason than they used to need. For example, Australians would come to Southeast Asia for a long shopping weekend or a concert."[3] In 2015, LCCs accounted for 18.6% of total seat capacity to and from Southeast Asia, and 56.4% of intra-region seat capacity.[4] To participate in this growth, the SIA Group had decided to enter the LCC business, launching a low-cost medium-to-long-haul airline, Scoot, in 2012, and in early 2016 fully taking over its short-haul low-cost subsidiary, Tigerair.

SIA's strategy since it was established in 1972 was to provide superior customer service, and its success in that regard had made it the world's preeminent airline for many years. Year after year, travel industry organizations awarded SIA the highest marks in various measurements of customer service, which evoked the iconic Singapore Girl image featured in most of its advertisements and embodied by its cabin crew, intended as a personification of Asian hospitality and customer care. However, uncertainty in the global economy due to the European debt crisis in late 2009 had put a dent on premium corporate demand in SIA's traditional key Asia-Europe routes. In the last decade, full-service competitors from the Middle East such as Emirates Airlines had been emerging aggressively, with deeper pockets and strong government support, and they posed a significant threat to SIA's historical competitive advantage in the premium sector.

Goh recognized that the structural changes facing the industry meant the SIA Group required a multi-pronged strategy to address the many challenges. These included having a portfolio of airlines serving both full-service and budget airline segments of the market, a multi-hub strategy in which it had investments in airlines in growth markets outside of Singapore, the pursuit of adjacent business opportunities to bring in new sources of revenue, and significant investment in the continued enhancement of premium products and services. These strategies had all been implemented concurrently since he took over as CEO, with Goh attributing the rapid pace at which they had been

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implemented to strong support from the airline's Board and staff. In awarding Goh the "Asia-Pacific Airline Chief Executive of the Year" in November 2015, the Centre for Aviation (CAPA) said: "SIA has made more strategic changes than any full service airline group in Asia and perhaps the world since Mr Goh took over as CEO at the beginning of 2011."[5]

Goh knew, however, that forays into new business segments must not detract from the parent Singapore Airlines' flagship gold standard of customer service excellence and product leadership, on which the company had built its hard-won reputation. Given the longer-term prospects of the industry and the region, investing in Scoot and Tigerair was deemed by senior management as a costly, but necessary, step. Some commentators however suggested that SIA should purely focus on their core strengths of premium full service, given that the Gulf airlines were also touting their cutting edge, world-class products on similar routes.[6] Was there a way to execute this multi-brand portfolio strategy so that SIA could have the best of both worlds?

Country Background

Situated on the southern tip of the Malay Peninsula, Singapore's strategic location on the Straits of Malacca was recognized early on by Western explorers. Other than Japanese occupation during World War II (1942–1945), the island remained under British government control until 1963, when it gained independence as part of Malaysia. In 1965, Singapore and Malaysia agreed to separate into two independent countries. The Republic of Singapore was a multiracial society with a population of 5.5 million people in 2014,[7] growing at 1.3% annually,[8] comprised predominantly of ethnic Chinese (74.3%) but including Malays (13.3%), Indians (9.1%), and others.[9] The country was a thriving center of commerce and trade, especially trade for re-export, due to a highly literate and motivated population, a strategic location in Southeast Asia, and modern sea and airport facilities. It had the highest per-capita income in East Asia of US$53,604.15.[10]

Company Background

Protectionism would not work, given the small domestic market. SIA quickly rose to the challenge and became one of the best global airlines.

— Extract from a speech by Singaporean Senior Minister Goh Chok Tong[11]

SIA was created in 1972 after the governments of Malaysia and Singapore divided the assets of the old national air carrier, Malaysia-Singapore Airlines (MSA), which had begun operations in 1947 originally as Malayan Airways Limited (MAL). Owned 100% by the Singaporean government, SIA expanded rapidly, and by the early 1980s it reached key destinations in Japan, Australia, Europe, and North America, enabled by increasingly liberal air service agreements governing air transportation markets between countries.

During its formative period in the 1970s, SIA developed all the hallmarks that made it one of the most successful and consistently profitable airlines in the world. To this day it had the distinction of never having posted a loss on an annual basis. The corporate headquarters, along with all training and maintenance facilities, were located at Changi Airport in Singapore. The airport, an important crossroads hub built by the government and opened in 1981, had been voted the World's Best Airport six times.[12]

The company expanded into various airline-related businesses over the years. The major subsidiaries included: SIA; SIA Engineering Company (SIAEC), providing maintenance, repair, and overhaul of aircraft, engine and related components at Changi and other airports; SIA Cargo, the world's seventh largest player in air cargo;[13] and SilkAir, a wholly-owned full-service regional airline.

The Singaporean government was solely a passive investor and had never provided the company with subsidies. It sold a portion of its holdings to the public on the Singapore Stock Exchange in 1985. The government owned roughly 57% of SIA through Temasek Holdings Ltd., a private investment arm. The government also adopted a liberal aviation policy, welcoming all countries to establish air links and foreign airlines to operate at Changi. Wary of the likes of Dubai airport competing with Changi as a hub, the government had been supportive of new LCCs establishing a base in Singapore. Notably, Jetstar Asia Airways, a low-cost airline founded in 2005 and based in Singapore, had become the third largest LCC brand in the Singapore-Southeast Asia market, behind AirAsia and Tigerair. While, for example, the Hong Kong government in June 2015 blocked low-cost Jetstar Hong Kong Airways from establishing itself in Hong Kong, which effectively shielded Cathay Pacific from low-cost competition on its home turf, the Singaporean government "had required Singapore Airlines to compete on its own, with no special help from the Government," as Senior Minister Goh Chok Tong emphasized in a speech in March 2011.[14] SIA Divisional Vice President Public Affairs Nicholas Ionides commented,

> Not being protected over the years has made us better. We have a limited domestic market to fall back on so we can never sit back. We don't see government protection as a benefit—we see that as a potential liability. We would've become complacent with protectionism. We have seen that happen with other national carriers.[15]

Company Snapshot in 2016

For the year ending March 31, 2016, the Group had consolidated revenues of SGD 15,228 million (USD 11,304 million) and net profits of SGD 804 million (USD 597 million).[16] The parent airline had total revenues of SGD 11,686 million and net profits of SGD 672 million (**Exhibit 1**). Airline operations accounted for 91% of the Group's total revenues and 67.6% of its consolidated profits for 2015–2016.[17] While Tigerair had suffered heavy losses in the past years, it achieved full-year profitability in 2015–2016, following its withdrawal from several loss-making associate airlines in other markets; its consolidation of its operations in Singapore, managing excess capacity and actively reviewing its network; and its closer collaboration with Scoot after Singapore Airlines took majority ownership.[18] In 2014, SIA was the world's eighteenth-largest airline by gross revenue, falling from sixteenth place in 2000[19] (**Exhibit 2**). In the monthly magazine *Air Transport World*'s World's Top 25 Airlines 2014 rankings, SIA was ranked 17th by revenue passenger kilometers, a measure of traffic based on the number of passengers carried multiplied by the distance travelled.[20]

Singapore Airlines operated passenger services to more than 60 cities in over 30 countries. Passengers could connect through Singapore to over 49 cities in 13 Asian-Pacific countries served by SilkAir. Tigerair operated flights to 37 destinations across 12 countries in Asia, while Scoot flew to 13 destinations in 7 countries within a radius of a five-to-nine-hour flight time out of Singapore.[21] Of the airline's total operating revenue in FY2015–2016, 34.6% came from East Asian routes, 22.7% from European routes, 17.6% from Southwest Pacific routes, 16.0% from American routes, and 9.1% from West Asian and African routes.[22]

The SIA Group had a total workforce of over 24,574, of which 14,046 worked for Singapore Airlines and the remainder for the various subsidiaries[23] (**Exhibit 3**). The Group was Singapore's largest private sector employer and was voted Singapore's second best Employer of Choice after Google in the 2014 JobsCentral Employers of Choice Survey.[24]

Industry Snapshot in 2015

Since the 1950s, airline yields (calculated as average fare paid by a passenger per kilometer) had fallen. The terrorist attack on September 11, 2001 in the U.S., and the global financial crisis of 2009, dealt further blows to the industry. Although in the last decade the industry as a whole had recovered, with revenues doubling from US$369 billion in 2004 to an estimated $746 billion in 2014, profit margins were being squeezed, prompting carriers to cut costs and find new streams of revenues.[25] The largest expense for airlines was jet fuel, which accounted for 31.8% of SIA's operating expenses at company level (**Exhibit 4**). Asian aviation analyst for JPMorgan in Singapore Corrine Png estimated that first class and business class passengers made up 40% of passenger revenue at Cathay Pacific and Singapore Airlines.[26] In terms of profit breakdown, "an airline will make between five to 10 times the profit flying a business class passenger than they will an economy class passenger on a long-haul route," said Henry Harteveldt, a travel industry analyst and founder of the Atmosphere Research Group.[27] Airlines figure out how much they can make from business class in order to determine how to price their economy fares, according to Umar Riaz, who led consulting firm Accenture's North American travel practice. He said, "Business class is an absolutely critical ingredient of the commercial model of most airlines… Once the business class seats cover the cost, economy is all profit."[28]

New Competition

SIA's main competitors historically included British Airways, Qantas, Lufthansa, and Cathay Pacific. The last decade had seen a new group of competitors emerge—the Gulf carriers, which included Dubai-based Emirates, Abu Dhabi-based Etihad Airways, and Doha-based Qatar Airways, along with Istanbul-based Turkish Airlines. Their rate of expansion was unprecedented in the industry, their combined passenger numbers nearly doubling between 2008 and 2013.[29] They occupied a slice of the market previously served by European and Asian legacy airlines. In protest, American and European airlines alleged that the three Gulf carriers had benefited from government subsidies in the form of low airport charges, interest-free loans and capital injections from their governments,[30] which amounted to unfair competition. One observer pointed out that Emirates's President, Sheikh Ahmed bin Saeed Al Maktoum, was also President of Dubai Civil Aviation Authority, Chairman of Dubai Airports, and President of dnata, the cargo service operator arm of Emirates, which he likened to the equivalent of "Doug Parker being CEO of American Airlines, head of the FAA, and President of DFW, ORD, LAX, JFK, and MIA Airports."[31] Emirates was now one of the world's biggest international carriers, and it was expanding aggressively in Singapore's home market.

These Gulf carriers were called "super connectors" by the *Economist* due to their geographic positioning that enabled them to serve more parts of the world.[32] With the "sweet spot" for airlines operations being six-to-eight-hour flights where efficiency was maximized and the ratio between fuel carried versus fuel burned was optimized, they were able to connect to Europe and Asia, and funnel secondary points to Europe.[33]

Historically, one of SIA's most important routes was the so-called "Kangaroo Route," between Europe, Singapore, and Australia, which was favored by premium class passengers. However Gulf carriers also started offering a one-stop route from Australia to Europe. An online comparison of prices on the travel website Expedia showed that for the same date, an SIA non-stop Singapore-London flight would cost SGD6,473 in business class and SGD 1,870 in economy, whereas a one-stop Singapore-Dubai-London flight on Emirates would cost SGD 4,144 in business class and SGD 891 in economy.[34]

Low-Cost Carriers

Low-cost carriers (LCCs) tended to use a single type of airplane, because bulk ordering was cheaper and there was less complexity, for example, in conducting pilot and cabin crew training, and maintenance. Each flight was densely packed, with a single-class configuration, point-to-point services, use of second-tier airports, and fast turnaround times.[35] Ancillary fees from non-essential services like checking in baggage and changing tickets accounted for more than 15% of total revenues at LCCs.[36]

The wave of deregulation made its way to Asia in the 2000s, with AirAsia emerging in 2003 as a major low-cost player. With a slew of LCC players rapidly adding capacity (eight-fold over the last 10 years), supply started to outgrow demand and they soon had trouble filling their seats and securing airport slots.[37] In 2014, only five out of the 22 LCCs operating in Southeast Asia were profitable.[38]

In 2009, Jetstar, the Australian LCC subsidiary of Qantas, started flying medium haul, and Malaysia-based LCC AirAsia established AirAsia X for medium-to-long-haul flights. The long-haul LCC model was partly birthed out of the increasingly uncomfortable economy flights on full-service airlines. To operate successfully, the long-haul LCC needed to be part of a network with short-haul feed, and it would have to boost revenues by adding business class and cramming in more economy class seats. Using ultra-fuel-efficient planes also helped to cut costs.[39]

Establishing Product and Service Superiority

Superior Product

The hardware—you can say any competitor with deep enough pockets can procure it. But being able to come up with something that might be a first gives you a certain head start, so you're known to be an innovator as opposed to a laggard that follows the majority. With the A380—it's the relevance of the landmark that captured the imagination of the people.

— Tan Pee Teck, Senior Vice President Product and Services, Singapore Airlines[40]

Full-service airlines typically relied on a range of aircraft depending on the destination. For example, flying to a large hub like London would require a wide-body aircraft like the A380, while a shorter route may have more frequent daily flight times using a smaller aircraft. Airlines tended to showcase their latest products on the long-haul aircraft, and SIA had been a first mover in several premium products. In October 2007, SIA earned the distinction of being the first carrier to fly the A380, still the world's largest passenger airliner, and it was ten months before its competitors procured it. Along with the introduction of the A380 it launched Suites, the most luxurious cabin class, with enclosed private cabins and sliding doors (**Exhibit 5**). Over time, other carriers narrowed the gap. Gulf carriers were particularly aggressive at developing new premium products aimed at matching SIA. Emirates, for example, boasted first-class cabins with on-board showers, its ad featuring popular U.S. actress Jennifer Aniston.

The SIA design team was intimately involved with creating and customizing the key products, with a deep understanding of the needs of their customers. When thinking about whether to offer a new product or service, Tan Pee Teck would ask the following questions,

> What is the cost-benefit proposition? Is it sustainable? Is it relevant to our customer? How much of a differentiation will it give us in two years, or five years? Because once you introduce something, it'll be hard to pull it back. If every airline worth its salt is offering the service, can I afford to be the odd one out? Does it influence passengers' decision

> whether to fly on SIA? Is it something that positions SIA as an innovator or market leader?[41]

An example was the wine selection in first class. Instead of competing with Gulf carriers on the number of wines they carried, Tan decided instead to market exclusivity—offer grand cru red burgundy which other carriers were not doing, and also target smaller boutique vineyards which produced limited supplies of excellent wine. On the other hand, while some airlines were offering airport transfer limousine services to their premium passengers, SIA decided not to follow. Notably SIA decided not to offer on-board showers; as Tan Pee Teck exclaimed,

> Definitely no showers! It's a frill that we probably don't need . . . it's not a compelling proposition in terms of the decision to choose an airline—I don't think many would choose based on a shower. . . .[42]

Customer Service Strategy

The service-software part has always been our bread and butter. Our success has always been ability to put the customer first and marry the interface between the service and the machine.

— Tan Pee Teck[43]

Cabin crew The company attracted a very large pool of applicants. Open cabin crew recruitment days saw about 800–1,200 applicants, out of which only about 10% would be accepted into the training program. Those chosen for cabin crew went through a rigorous 15-week training program described as a cross between a finishing school and boot camp. In contrast, Emirates's training program lasted seven weeks.[44] Training covered both functional skills and "soft skills." Pouring a cup of coffee at 30,000 feet was a functional skill, SIA executives explained, but the engagement, warmth, and connection with the passenger in pouring that cup of coffee was a soft skill.

SIA's cabin crew, numbering at 7,700, comprised more than half of the total number of SIA employees. About 65-70% of the crew were Singaporean, 10-15% were Malaysian, with the remainder from other countries. Emirates's cabin crew team, by contrast, hailed from over 140 countries. Senior Vice President Cabin Crew Marvin Tan said, "Every flight has a different mix of crew members, and this intangible core culture enables them to work together as a team towards a single experience and ensure consistency to deliver customer service."[45] Other airlines sought to hire retired SIA crew members as trainers, but Tan stressed that SIA's "intangible core culture" was difficult for others to emulate. However, he observed that the profile of the cabin crew had changed over the years:

> The crew used to have less education, because they had fewer opportunities to go to school. Today's pool of applicants, some of them even have Master's degrees, and they probably lived a comfortable life. So we have to make sure they will have the humility to serve. They have to clean up vomit and clean toilets, yet also have the polish to impress first class customers.[46]

Female attendants were outfitted in a distinctive uniform, a Malay *sarong kebaya* specially designed by Parisian couturier Pierre Balmain. Tan said, "Once you put on the kebaya, you have a sense of pride but also humility."[47] There were only five approved hairstyles; a bun must measure between 6.5 and 7.0 cm wide, and be centered between the 1 and 3 o'clock positions on the back of the head.[48]

Singapore Girl Promotion

The "Singapore Girl," an idealized version of the SIA flight attendant, was the centerpiece of SIA's international marketing strategy (**Exhibit 6**). As one marketing agency head put it, "In accounting terms, she's an intangible asset. [Dropping her would be] like McDonald's giving up Ronald McDonald or Disney firing Mickey Mouse." [49] (Although women comprised only about 60% of SIA flight attendants, a larger proportion of them served in the cabins while the men worked in the galleys.) Featured in print ads using high-quality photography, the Singapore Girl projected beauty, grace, charm, good taste, and an air of intrigue. An independent advertising study of consumers in the Asia/Pacific region in 1980 revealed that the Singapore Girl ads triggered a high level of recall, many times higher than the average recall of 40 other airline advertisements. On the other hand, Peter Harbison, executive chairman of CAPA (Center for Aviation), expressed, "The world has changed for them. The days of being able to rely on the Singapore Girl to pull people in are gone."[50]

Portfolio Strategy

In 2012, Goh made a public announcement about the Group's portfolio strategy to highlight how it was able to compete in multiple market segments (**Exhibit 7**).[51] Australia's Qantas already had a low-cost airline that it owned called Jetstar, while Japan's ANA had Peach and AirAsia Japan, which was later renamed Vanilla Air after ANA and Malaysia's AirAsia parted ways. But SIA's portfolio strategy was different in that the Group had four airlines that were all based in Singapore catering to all market segments. These served short-, medium- and long-haul routes, across both full-service and low-cost models.

SilkAir

SilkAir flew to secondary points using its narrow-body aircraft, with an average flight time of 3.5 hours. Secondary points were defined as markets where demand was not high enough to fill a wide-body aircraft, and with fewer premium passengers. Although SilkAir was an integral part of the SIA Group network before the establishment of the Middle Eastern carriers, its enhanced integration with SIA in more recent years had become an important component of staving off competition from Gulf carriers who did not have narrow-body aircraft. SilkAir faced different competitors depending on the route. On some routes it was the sole operator, for example, Singapore to Changsha. Some destinations were shared by both SIA and SilkAir but at different departure times, so SilkAir provided additional frequency with a smaller aircraft. SilkAir also stimulated demand in secondary markets. Once demand increased to the point that a bigger aircraft could be filled then SIA would take over that route. About 40% of its passengers were connecting to or from SIA flights. SilkAir offered full service, inclusive of free baggage allowance, inflight meals and entertainment, and seat selection (**Exhibit 8**). As SilkAir's longest flight was only 6.5 hours (Singapore-Cairns), its business class seats were not lie-flat.

Scoot

When we first started Scoot we had to make it clear it was totally independent. There was no discussion of connecting. We wanted to make sure SIA's premium branding is not compromised or diluted. Once there is confusion you compromise the branding of SIA.

— Campbell Wilson, CEO of Scoot[52]

Scoot's spirit was encapsulated by "Scootitude": "being engaging, fuss-free, reliable, contemporary, friendly, different." Scootitude was embodied in all aspects of the brand's culture, from the open-plan office, to the staff's yellow uniform, cheeky magazine ads (**Exhibit 9**), and CEO Campbell Wilson's own media persona. Wilson himself was known for selling duty-free on board with lighthearted antics—"If I do it, the crew are encouraged to do likewise."

The Group thought carefully about how to present Scoot to the market. Wilson said, "We didn't want them to think, 'Great! Now we get Singapore Airlines service at a fraction of the price.' We don't pretend to be SIA just 50% cheaper, as was originally the expectation of Singaporeans." However this did not prevent an aviation analyst with Standard and Poor's in Singapore from calling Scoot "a poor man's excuse to fly SIA. It will be like luxury budget."[53]

In nearly four years since its launch, 7 million passengers had flown on Scoot, at ticket prices that were 40% cheaper than full-service airlines. Scoot focused on five-to-nine-hour flights out of Singapore, to destinations like Australia, Japan, China, and India. Scoot also offered "ScootBiz" class, akin to what other airlines would call premium economy service.[54]

Scoot's competitors varied depending on the routes. Scoot could fly routes not viable for SIA but beyond the range of SilkAir or Tigerair, for example, Singapore to Nanjing, Qingdao, Tianjin, and Gold Coast. Kuala Lumpur-based AirAsia was the closest competitor in the low-cost long-haul space. One-stop full-service carriers, who sold their flights at a discount relative to non-stop carriers like SIA, competed on some routes. Scoot offered non-stop flights for the price of a one-stop full-service airline. Wilson said, "Actually, in our space, competition also comes from the option of staying home, going to a Sentosa resort or a fancy restaurant. Leisure travel is discretionary expenditure, so we're trying to stimulate new demand as much as shifting existing demand from other players."[55]

Tigerair

Tigerair was launched as an independent short-haul, low-cost airline based in Singapore in 2004, and was listed on the Singapore Exchange in 2010 (**Exhibit 10**). At first, the Group only took a 49% stake as a hedge against the rise of the LCCs in Asia, but Tigerair struggled to achieve profitability. In 2014, the Group increased its stake to 55.8% to make it a subsidiary. Scoot had to rely on feed from Tigerair but even with a majority stake it was difficult to achieve complete alignment,[56] as Tigerair's independent board members were not motivated to make decisions that were in the best interest of the overall SIA Group, given that they had a fiduciary duty to all shareholders, including the public minority shareholders.[57] In May 2016, the Group, following a general offer to shareholders that resulted in it taking full ownership, delisted Tigerair, unlocking possibilities of full integration within the Group.

Pursuing Synergies

To ensure no dilution of focus, each airline had different management teams at the operating level. A high-level committee chaired by Goh and including the heads of each airline coordinated group network, fleet planning, marketing efforts, and aircraft requirements, in order to maximize synergy and ensure that each brand did not end up compromising the others. SIA refrained from selling on Scoot until July 2015, when passengers needed to connect to Scoot's exclusive destinations such as Hangzhou and Jeddah that were no longer served by SIA. These SIA passengers automatically received extra products on their Scoot flights including meals, drinks, checked luggage, and seat assignments. Previously resistant to forging connections for premium passengers onto their low-cost brands, the Group now deemed it necessary since Scoot and Tigerair gave the Group network access to over 20 more destinations. As Goh pointed out, "Those [additional] points wouldn't have been feasible to serve commercially using a full-service carrier."[58]

Partnerships

Loyalty Programs

In 2015, SIA announced that members of its frequent flyer program, called KrisFlyer, could also accrue and redeem points on Tigerair and Scoot, which enabled the group to share passenger data across the whole portfolio. On the other hand, some industry observers noted that this move had "further blurred the line of differentiation on the product front and lowered the switching cost for its most price-elastic Economy passengers and lowest-tier KrisFlyer members."[59]

Star Alliance

SIA was part of Star Alliance, a global network of 28 airlines that included giants like United Airlines, Lufthansa, and Air China. Initially SIA was reticent about codesharing, as it was impossible to ensure the same level of service when customers flew on other airlines. Under Goh, however, SIA increased the number of weekly codeshare sectors it had with partner airlines from around 2,000 to over 8,000, which allowed SIA to grow its network without deploying physical resources.

Joint Ventures

As the domestic market was close to maturation, the Group sought to establish hubs outside of Singapore that could synergize with its existing hub as well as have a growth market of its own. It entered into a joint venture agreement with Indian conglomerate Tata Sons to start Vistara, an airline based in New Delhi that launched operations in January 2015. In the same year, Scoot and Thai low-cost airline NokAir launched NokScoot, a low-cost medium-to-long-haul joint venture airline based in Bangkok. Campbell Wilson explained,

> Singapore is small; there's a natural limit to the number of times Singaporeans can go overseas and also a natural limit to the number of visits foreigners will make. There's also a limit to the number of traffic rights granted to Singaporean operators. By venturing outside Singapore we can, in addition to helping our partners achieve their business objectives, firstly, tap new origin and destination markets and secondly, utilize traffic rights which aren't Singapore's. These other hubs allow us to grow without impacting other airlines in our Group.[60]

Staying Abreast of Customer Expectations

According to company executives, a study by an outside consulting firm revealed that passengers expected more of SIA than they expected of other airlines. "Customer expectations are getting higher and higher," said Foo Chai Woo, previously SIA's regional vice president for the Americas, currently chief executive of SilkAir.[61] A longtime flier of Singapore Airlines said:

> The prime time for Singapore Airlines was more associated with the 1990s and early 2000s, pre SARS and pre Asian Financial Crisis. And they never got it back to that level again. Of course it is still good compared to other airlines available in the world. Just that I've experienced their best, and am experiencing their average.[62]

Improving the Service Model

People can easily copy our hardware – that's why it's not just the product. The most important element is the service that goes with it. We are a service leader, and we will not let anyone overtake us in terms of service. The cabin crew personifies the SIA culture, but the culture actually permeates and reinforces the whole organization.

– Goh Choon Phong[63]

Company executives pointed to numerous examples from all over the world in which employees distinguished themselves serving passengers. When baggage handlers in Paris went on strike in the late 1990s, for instance, company employees—ticket agents, flight attendants, the station manager—formed a line and loaded the baggage onto the aircraft themselves, so that SIA had the only flights operating during the work stoppage.

SIA ran an internal program called Transforming Customer Service (TCS) which recognized the most outstanding customer service delivered by SIA employees, from pilots, cabin crew, ground staff, reservation staff, engineering to cargo. An annual CEO TCS Awards night was likened to the company's "Academy Awards." The 2015 published booklet told the story of a chief steward who noticed a lady passenger with limited mobility on his flight. He made special arrangements to move her to the front section of economy class, and allowed her to use the business class lavatory. He discovered the lady was on the way to attending her mother's funeral. Not only did the steward comfort her with hot tea, he accompanied her to her mother's funeral. He also met the passenger at the airport to help her on her departure flight.[64]

Customer Experience Management System

In 2015, SIA launched the first phase of its ambitious Customer Experience Management (CEM) system. It was a project that had been four years in the making and which was designed to record profiles of passengers into an integrated database to provide a consistent 360-degree view of the customer that was easy for the service staff to access. Although this kind of data already existed up to a certain level across various systems, as the volume of passengers swelled and with employee churn, a fully integrated system was needed to capture necessary information at each stage of customer engagement and deliver it to all customer-facing touchpoints. It included the passenger's flying record, previous complaints and compliments, preferences for food and on-board entertainment, how they liked to be addressed, and observations made by crew members. CEM also extended to the sales and marketing team, who could personalize their sales offers.

Goh concluded, "We believe we have to continue to innovate, and that's the reason why we are embarking on this ambitious CEM project. The whole idea is to enable our staff to provide proactive personalized service in a consistent manner across the touchpoints. The starting point is that our staff already has the service DNA, the culture within them to want to deliver their best for the customers. It's not an automation project; it's a project to help put together relevant information to our staff so they can have *more* interaction time with the customer, not reduced interaction time."[65] The challenge with raising the bar in such a way was that a passenger may complain if he does not get the same service on a second flight. Longtime SIA flyer Ashok Melwani encapsulated this dilemma: "For me, out of 20 flights I might get one flight with just average service. Compared to phenomenal, 'average' feels like a letdown."[66]

Navigating the Crosswinds Ahead

With the low-cost segment growing at a faster rate than the premium segment, it signaled challenging times ahead for the parent airline. Tasked with building Scoot and Tigerair on the one end, and upholding the sterling reputation of Singapore Airlines on the other, Goh wondered whether it continued to make sense to maintain four distinct brands offering some overlapping routes based in a limited market. Was cross-selling within the portfolio in order to widen the network offering worth the risk in brand dilution and market cannibalization? Where was the synergistic “sweet spot” of operating this multi-brand strategy?

Exhibit 1 Singapore Airlines Financial and Operating Statistics, 2011–2016

		2015/16	2014/15	2013/14	2012/13	2011/12
Singapore Airlines						
Financial						
Total revenue	($ million)	**11,686.1**	12,418.4	12,479.7	12,387.0	12,070.1
Total expenditure	($ million)	**11,201.0**	12,078.2	12,224.1	12,199.8	11,889.5
Operating profit/(loss)	($ million)	**485.1**	340.2	255.6	187.2	180.6
Profit/(Loss) before taxation	($ million)	**766.2**	563.1	536.4	(682.4)	413.3
Profit/(Loss) after taxation	($ million)	**672.0**	540.3	538.5	(694.1)	390.2
Capital disbursements [R1]	($ million)	**2,309.0**	1,788.5	2,251.1	1,648.2	1,762.7
Passenger - yield	(cents/pkm)	**10.6**	11.2	11.1	11.4	11.8
- unit cost	(cents/ask)	**8.5**	8.9	9.1	9.2	9.2
- breakeven load factor	(%)	**80.2**	79.5	82.0	80.7	78.0
Operating passenger fleet						
Aircraft	(numbers)	**102**	105	103	101	100
Average age	(months)	**89**	85	81	80	74
Passenger production						
Destination cities	(numbers)	**60**	60	62	63	63
Distance flown	(million km)	**382.3**	384.4	392.2	386.3	374.6
Time flown	(hours)	**506,757**	508,591	517,987	507,562	490,261
Available seat-km	(million)	**118,366.5**	120,000.8	120,502.8	118,264.4	113,409.7
Traffic						
Passengers carried	('000)	**19,029**	18,737	18,628	18,210	17,155
Revenue passenger-km	(million)	**94,267.4**	94,209.2	95,064.3	93,765.6	87,824.0
Passenger load factor	(%)	**79.6**	78.5	78.9	79.3	77.4
Staff						
Average strength	(numbers)	**13,983**	14,040	14,240	14,156	13,893
Seat capacity per employee [R2]	(seat-km)	**8,465,029**	8,547,066	8,462,275	8,354,366	8,163,082
Passenger load carried per employee [R3]	(tonne-km)	**626,572**	625,516	625,995	619,969	594,663
Revenue per employee	($)	**835,736**	884,501	876,383	875,035	868,790
Value added per employee	($)	**261,861**	242,970	242,184	159,593	237,472
SilkAir						
Passengers carried	('000)	**3,836**	3,553	3,411	3,295	3,032
Revenue passenger-km	(million)	**6,516.2**	5,864.9	5,516.1	5,223.1	4,469.4
Available seat-km	(million)	**9,117.8**	8,355.2	7,926.9	7,096.3	5,904.8
Passenger load factor	(%)	**71.5**	70.2	69.6	73.6	75.7
Passenger yield	(cents/pkm)	**13.5**	13.9	13.7	14.1	14.5
Passenger unit cost	(cents/ask)	**9.0**	9.7	9.8	9.9	10.1
Passenger breakeven load factor	(%)	**66.7**	69.8	71.5	70.2	69.7
Scoot [R4]						
Passengers carried	('000)	**2,412**	1,878			
Revenue passenger-km	(million)	**8,673.9**	6,718.7			
Available seat-km	(million)	**10,267.4**	8,170.6			
Passenger load factor	(%)	**84.5**	82.2			
Revenue per revenue seat-km	(cents/pkm)	**5.6**	5.6			
Cost per available seat-km	(cents/ask)	**4.7**	5.8			
Breakeven load factor	(%)	**83.9**	103.6			

Exhibit 1 (continued)

Tiger Airways [R4]			
Passengers carried	('000)	**5,128**	5,140
Revenue passenger-km	(million)	**9,551.1**	9,696.3
Available seat-km	(million)	**11,465.4**	11,812.4
Passenger load factor	(%)	**83.3**	82.1
Revenue per revenue seat-km	(cents/pkm)	**7.0**	6.8
Cost per available seat-km	(cents/ask)	**5.8**	6.0
Breakeven load factor	(%)	**82.9**	88.2

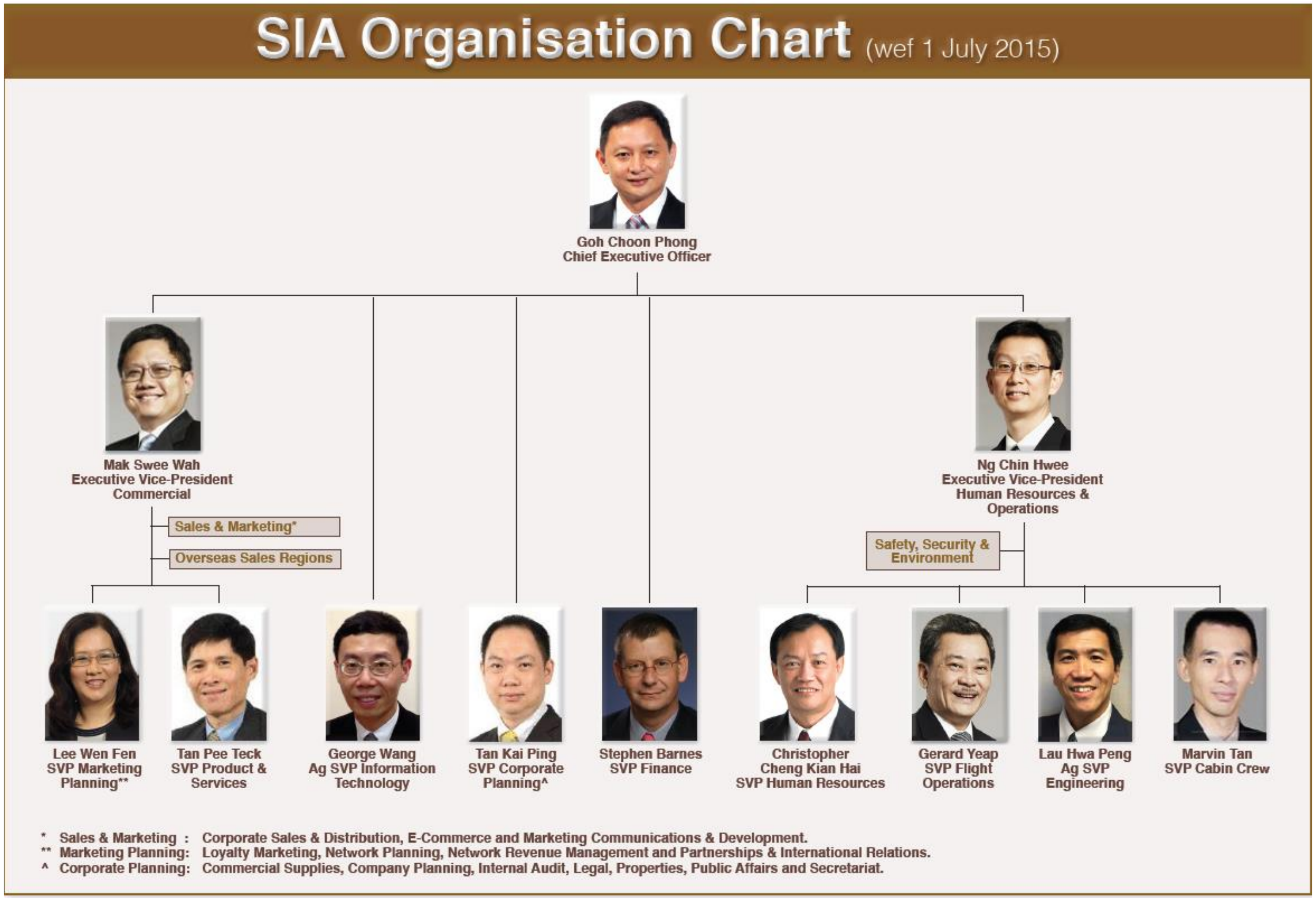
Source: Singapore Airlines Annual Report 2015–16, pp. 216–217.

Exhibit 2 Top 25 Airline Groups by Revenue 2014 (US$)

Ranking 2014	(2013)	Group/ Airline	Country	Revenues ($m)	Change (%) in US$	Operating results ($m)	Operating margin (%)	Net result ($m) 2014	Net result ($m) 2013	Net margin 2014 (%)	Mainland operating revenues Passenger/cargo share (%)
1	(1)	American Airlines Group	USA	42,650	5.5	4,249	10.0	2,882	-1,233	6.8	87.0/ 2.1
2	(4)	Delta Air Lines	USA	40,362	6.9	2,206	5.5	659	10,540	1.6	86.6/2.3
3	(2)	Lufthansa Group	Germany	39,558	-0.9	1,258	3.2	73	416	0.2	71.9/9.4
4	(3)	United-Continental Holdings	USA	38,901	1.6	2,373	6.1	1,132	571	2.9	86.8/2.4
5	(5)	Air France-KLM Group	France	32,861	-3.2	-170	-0.5	-249	-2,417	-0.8	78.5/10.8
6	(6)	FedEx	USA	27,239	0.4	1,584	5.8				0/100.0
7	(7)	IAG	UK	26,587	7.7	1,356	5.1	1,322	195	5.0	88.4/4.9
8	(8)	Emirates Group	UAE	26,262	9.9	1,878	7.2	1,487	1,112	5.7	
9	(9)	Southwest Airlines	USA	18,605	5.1	2,225	12.0	1,136	754	6.1	94.9/0.9
10	(11)	China Southern Air Holding	China	17,596	9.7	769	4.4	389	448	2.2	89.5/6.6
11	(12)	Air China	China	17,158	7.3	1,177	6.9	694	589	4.0	87.5/8.3
12	(13)	ANA Group	Japan	15,465	-1.0	826	5.3	354	188	2.3	67.2/9.7
13	(14)	China Eastern Airlines	China	15,211	2.7	982	6.5	574	341	3.8	80.2/7.8
14	(10)	Qantas Group	Australia	14,018	-13.6	-3,444	-24.6	-2,596	2	18.5	86.3/6.2
15	(17)	Cathay Pacific Group	Hong Kong	13,666	5.5	572	4.2	406	338	3.0	71.5/24.0
16	(15)	LATAM Airlines Group	Chile	12,471	-6.0	513	4.1	-110	-281	-0.9	83.2/13.7
17	(16)	Japan Airlines	Japan	12,137	-6.9	1,622	13.4	1,345	1,654	11.1	70.1/6.3
18	(18)	Singapore Airlines Group	Singapore	12,027	-0.5	316	2.6	284	285	2.4	
19	(19)	Air Canada	Canada	11,978	0.1	736	6.1	95	10	0.8	88.9/3.8
20	(21)	Turkish Airlines	Turkey	11,070	12.7	603	5.4	845	357	7.6	89.1/8.8
21	(20)	Korean Air	South Korea	11,064	3.5	353	3.2	-195	-266	-1.8	60.0/24.5
22	(23)	Qatar Airways Group	Qatar	9,388	11.6						76.9/14.9
23	(22)	Aeroflot	Russia	8,092	-10.9	285	3.5	-434	229	-5.4	84.0/2.7
24	(28)	Etihad Airways	UAE	7,600	26.7	257	3.4	73	48	1.0	0/14.6
25	(26)	EasyJet	UK	7,516	13.1	965	12.8	747	621	9.9	98.6/0

Source: Casewriters' compilation using data sourced from Airline Business 2015, http://topairlinesrankings.blogspot.hk/2015/08/top-ranking-airline-groups-by-revenue.html, accessed April 2016.

Exhibit 3 Singapore Airlines Organization Chart



Source: Company documents.

Note: As of May 2016, Tan Pee Teck and Marvin Tan have swapped portfolios.

Exhibit 4 SIA Expenses (SGD millions)

	2015/16		2014/15		Change
	$M	%	$M	%	(%)
Fuel costs	3,563.3	31.8	4,536.2	37.5	-21.4
Staff costs	1,596.0	14.3	1,540.2	12.8	+3.6
Depreciation charges[a]	1,257.4	11.2	1,264.0	10.5	-0.5
Handling charges	889.6	7.9	876.2	7.3	+1.5
Aircraft maintenance and overhaul costs	750.9	6.7	655.7	5.4	+14.5
Rentals on leased aircraft	702.6	6.3	698.3	5.8	+0.6
Inflight meals and other passenger costs	669.9	6.0	676.7	5.6	-1.0
Airport and overflying charges	584.4	5.2	594.8	4.9	-1.7
Sales costs[b]	561.7	5.0	552.9	4.6	+1.6
Communication and IT costs[c]	91.1	0.8	85	0.7	+7.2
Other costs[d]	534.1	4.8	598.2	4.9	-10.7
Total	11,201.0	100.0	12,078.2	100.0	-7.3

Source: Singapore Airlines Annual Report 2015–16, p. 54.

[a] Depreciation included impairment of property, plant and equipment and amortization of computer software.

[b] Sales costs included commissions and incentives, frequent flyer program cost, computer reservation system booking fees, advertising expenses, reservation system IT cost and other sales costs.

[c] Communication and information technology costs were for data transmission and contract service fees, hire of computer equipment, maintenance/rental of software, and information technology contract and professional fees.

[d] Other costs mainly comprised crew expenses, company accommodation cost, foreign exchange revaluation and hedging loss, comprehensive aviation insurance cost, airport lounge expenses, non-information technology contract and professional fees, expenses incurred to mount non-scheduled services, aircraft license fees and recoveries.

Exhibit 5 Singapore Airlines First-Class Suite

Source: Singapore Airlines website, http://www.singaporeair.com/email-marketing/ph/201207-30jul2012/a380-suites-promo/sia-a380-suites-promo-static.html, accessed April 2016.

Exhibit 6 "Singapore Girl" Ad, 2013, *"The Lengths We Go To" Campaign*

Source: Company documents.

Exhibit 7 Singapore Airlines Multi-brand Portfolio Matrix

Source: Company documents.

Exhibit 8 SilkAir Advertisement

Source: Company documents.

Exhibit 9 Scoot Advertisement

Source: Company documents.

Exhibit 10 Tigerair Advertisement

Source: Company documents.

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