Singapore Airlines

Pre-Trip Report

Team 1: Mario Berrios, Issa Dadoush, Larry Egle, Brad Johnson, Miguel Mexican AKA “Wise Guys”

International Business Residency – Dr. Roger Blakeney

April 20, 2008
Singapore Airlines

Singapore Airlines (SIA) is widely regarded by those in the airlines industry, travelers as well as its competitors, as one of the very best airlines in the world. [1] The company, with a network spanning five continents, is known for its young fleet and excellent customer service. Its uncompromising approach to safety and security, ethical practice of business, commitment to be a good corporate citizen embracing responsible governance, and dedication to profitable returns to shareholders are SIA’s core values. The Singapore Girl brand is an internationally-renowned symbol of quality service, and she is regarded as an excellent representative of the country.

SIA was incorporated as a wholly-owned subsidiary of the Singapore government through Temasek Holdings Ltd., on January 28, 1972, as a public company with limited liability. It was formally known as Malaysia-Singapore Airlines, before they disbanded and Singapore Airlines took over as the successor. The history of these airlines began back in 1947 when they initiated scheduled services between Singapore, Kuala Lumpur, Ipoh and Penang. The Malaysian airlines grew steadily from that point and 8 years later began offering international flights. In 1966 the governments of Malaysia and Singapore acquired joint control of the airline; at this point they changed the name to Malaysia-Singapore Airlines Ltd (MSA). It was not until 1971 that the joint venture of MSA was restructured into 2 entities; Malaysia Airline System and SIA. [1]

Temasek Holdings Limited owns 55.49% of SIA’s shares. Temasek is a portfolio investment firm valued at over $160 billion, with approximately $100 billion of its investments in Asian markets. Temasek enjoys a AAA bond rating by both Standard and
Poors and Moody’s. Two other corporations based in Singapore - DBX Nominees Pte Ltd., and HBSC, respectively own 15.79% and 6.75% of outstanding SIA shares. These companies are the top three major shareholders of SIA stock. [2]

SIA is considered to be one of the world's most successful airlines, this is seen through the amount of growth they have had in such a short time. Within a year of SIA breaking away from MSA, SIA began looking for new ways to differentiate itself and to stimulate growth. The company determined that it needed a unique product/service differentiation strategy, and decided that the strategy should be based on in-flight service.[1] As an Asian airline, SIA chose to focus on Asian traditions of providing gentle, courteous service. The Asian woman traditionally took pride in fulfilling the role of the gracious, charming, and helpful hostess. SIA capitalized on Oriental charm and built upon it by recruiting and training stewardesses with Eurasian ethnic backgrounds. SIA stewardesses were costumed in a beautiful version of the Malay sarong kebaya. The Singapore Girl brand was born. SIA took in-flight service to the highest level by rigorously training each Singapore girl and by providing premium quality service amenities. Passengers were treated to some of the best food, served with “warm smiles, warm towels, and attention to details”. SIA provided each in-flight class with complimentary cocktails, fine wines, and in-flight films at no extra charge. One of SIA’s new marketing slogans became, “A standard of service that even other airlines talk about”. Advertisements now included photographs of the Singapore Girl representing beauty, prestige, and always offering customer service. [1]

SIA also developed a continuous quality improvement initiative which they labeled Transforming Customer Service (TCS). The company implemented TCS in five key
operational areas: with the cabin crew, engineering, ground services, flight operations, and sales support. [3] In each of these areas, SIA created five elements that form cornerstones of the company’s human resources management and service excellence strategy. The five elements are:

1. stringent selection and recruitment processes
2. extensive training and retraining of employees
3. formation of successful service delivery teams
4. empowerment of front-line staff, and
5. motivation of employees.

This is known as SIA’s “Leadership for Service Excellence” model, and SIA depends on this model to achieve its goal of delivering its business strategy of service excellence in a cost effective way. [3] To support this service excellence strategy, SIA adopts a rigorous quality control system and process for staff recruitment and selection, as well as a rigorous training and service policy. Each newly employed Singapore Girl must be under a certain age (in 2000, the age was 26) and is employed on a five-year contract basis after successfully completing a highly selective three-stage interview process. All employees in the five key operational areas undergo an intensive four-month initial training course. For the Singapore Girl, the training will focus on safety, beauty tips, discussions of gourmet food and fine wines, the art of conversation, and reviewing numerous customer service case scenarios. [1] Front-line staff at SIA are empowered to make appropriate decisions on customer service delivery and take corrective actions as needed for service recovery. [3]
To further enhance the in-flight experience, SIA determined that it must invest in and provide state-of-the-art technology to its customer. SIA installed the most innovative in-flight personal entertainment systems and video-on-demand in all cabins. SIA was also one of the first Asian carriers to introduce Electronic Ticketing and Internet Check-in service for its passengers. [1]

When thinking of a nationally recognized Asian brand, Singapore Airlines will for most, be one of the first ones that come to mind. Singapore Airlines gained its current status by taking their airline and turning it into a fully branded product/service; unlike anything anyone had ever seen from an airline. While other airlines have tried to pursue a similar high quality/service brand strategy, none have been able to match SIA in consistency, commitment, and permeation of the brand. SIA recognizes that any advantage gained by one airline over another is likely to be short-lived, however SIA stays focused on its strategy of trying to remain in the forefront of innovation in both service and technology – and it has remained successful. [1]

SIA operates over 572 passenger flights a week out of Singapore. Their current fleet size consists of 158 passenger planes and 5 cargo planes. More recently, in 2000 the Company bought 49 percent of Virgin Atlantic airline for US$950 million. This combination helped Singapore airlines gain a presence in Europe, and increase competition at Heathrow Airport. Both Virgin Atlantic and Singapore Airlines brands are known for their quality, innovation and excellent service. [4]

One of the key ways SIA maintains key strategies is through its makeup of its Board of Directors. SIA stays updated on global industry trends by maintaining a diverse variety of business leaders on its Board with dual oversight by the CEO and Chairman.
The Board of SIA is comprised of a variety of industry leaders such as the airline industry, financial sector, resort and hotel industry, and other areas of business. [2] For example, Sir Brian Pitman, CEO of Lloyds Bank, is also a Board member at Virgin Atlantic airlines. By picking the best leaders that compliment the SIA mission and vision, the company is capable of formulating strategic advantages that keeps them ahead of the average airline. The board of directors of Singapore Airlines is comprised of the following members:

- Stephen Lee Yen – Chairman (Executive over SIA Engineering)
- Chew Choon Seng – Chief Executive Officer (Joined SIA in 1972 and has held various positions before becoming CEO in 2003)
- Chia Pei-Yuan – (Independent) Formerly Vice Chairman at Citicorp, and Citibank NA., and serves on various boards such as Bank of China, and CNH Global.
- Euleen Goh Yiu Kiang – (Independent) Held various senior management positions in Standard Chartered Bank, and serves on several boards.
- David Micheal Gonski – (Independent) has served as Chairman of the Australian Council for the Arts and the Art Gallery of New South Wales, and has served on the board of Coca Cola.
- Ho Kwon Ping – (Independent) Inherited Banyon Tree Resorts from his father, and is noted as one of the 40 richest people in Singapore.
- James Koh Cher Siang – (Independent) Formerly Chief Executive Officer of the Inland Revenue Authority of Singapore.
• Sir Brian Pitman – (Independent) Formerly CEO of Lloyds Bank, and serves as Director on several boards including SIA & Virgin Atlantic. Sir Pitman was knighted in 1994 for his services to the banking industry.

• Davinder Singh – (Independent) Chief Executive Officer of Drew & Napier LLC

Because of the international diversity and variety in business experiences represented by the Board membership, SIA recognizes the importance of building strong relationships, not only with its customers and business partners, but also with the many communities it serves. [2] It practices good corporate citizenship actively through the support of the arts, sports and educational initiatives, both locally and abroad. SIA is committed to helping the less privileged, sponsoring programs for the needy, handicapped children, and senior citizens, and protecting the environment. SIA continues to have an active role in the communities it serves. They back community groups and charitable organizations through corporate donations and sponsorships. The Community Chest of Singapore receives S$150,000 a year from Singapore Airlines. The Community Chest funds voluntary welfare programs for disadvantaged people in Singapore. SIA donated S$233,000 to help fund Singapore’s first dialysis center through the National Kidney Foundation. [3] SIA famously auctioned off seats on the first A380 airbus flight from Singapore to Sydney in October 2007. All proceeds were donated to charity. [1] The airline raised about S$1.9 million to be split three ways between the following charities; Singapore’s Community Chest, Sydney’s children’s hospital, and Doctors without Borders. It is refreshing to see an organization that understands the importance of giving back to the communities in which they operate in. [4]
It is clear to see that by building relationships with the communities it serves, SIA is strategically mapping its global footprint, not just in Asia, but around the world. Also, SIA continues to illustrate its commitment to environmental friendliness with the introduction of Airbus A380 to its young fleet. On July 24, 2000, SIA became one of the first organizations to make a firm order of commitment to purchase the new A380 aircraft. The A380 is the all new greener, cleaner, quieter, and smarter 21st Century Flagship airliner. The spacious and luxurious A380-cabin-interior features 471 seats in three classes. In every class there is more comfort and more space for relaxation. The A380 is setting new environmental benchmarks in air-transport and has unmatched fuel efficiency. The A380 has the quietest and cleanest-burning engines among aircraft similar to its size (the A380 is the largest), with emissions levels well within the requirements of all current and future legislation. SIA was the first to fly the A380 on a regularly scheduled service which began with its Singapore to Sidney service in October, 2007. This highly awaited and much publicized inaugural flight revealed SIA’s commitment to being a leader in the provision of high quality, environmentally-friendly service in the skies. With the introduction of the A380 and with SIA becoming one of the first users around the world, the airline is staying well ahead of its competition. [5]

Continuing with plans to grow its global footprint, SIA submitted a bid in the fall of 2007 to buy a 24% stake in China Eastern Airlines in an attempt to expand into new routes. China is forecasted to be Asia’s fastest-growing aviation market, and therefore logically an area where SIA wants an increased market share. Air China recently blocked SIA’s bid in January, 2008 with a counter-offer of its own. SIA is expected to strengthen its bid by improving the terms of the previous offer. Meanwhile, a senior official of
Temasek Holdings told the South China Morning Post that the Singapore government investment arm and Singapore Airlines remain committed to an alliance with China Eastern, even if their former deal were to face opposition from shareholders. "We are firmly committed to the deal," said Ong Beng Teck, Temasek's managing director of investment. They plan to work with China Eastern to win shareholders who are in favor of Air China's higher offer, but they would not give a timetable to finalize a deal, the report said. China National Aviation Corp Group, Air China's parent, proposed to pay at least US$0.64 a share or US$1.9 billion in total for less than 30 percent in China Eastern after majority shareholders rejected SIA and Temasek from acquiring a 24-percent stake for US$0.49 a share. Analysts view this approach as a lack of a clear growth strategy and have cut profit forecasts for 2008. A Citigroup analyst recommended that investors sell SIA shares, citing its lower growth prospects compared to rivals like Cathay Pacific and Air China. [6]

Alternative options exist for SIA. Industry analysts suggest SIA look at acquiring smaller regional carriers and have named three potential airlines: Shanghai Airlines (China), Virgin Blue (Australia), and Tiger Airways (Singapore/Australia) -- where SIA already owns 49% of Tiger Airways. Nevertheless, SIA is still under discussions with China Eastern to strike a deal. The comments to continue the talks with China came at the same time SIA was marking the first commercial flight of the new Airbus A380 double-decker to London. Even in the mist of delayed deals as with China Eastern, SIA is looking at other strategic targets as well. Some of the current possible acquisition targets include Shanghai Airlines, a 62% stake in Virgin Blue, and more. [7]
SIA continues its relationship and commitment to the Japanese market. In May, 2008, SIA will make an inaugural flight to Tokyo, Japan. Tokyo will be SIA’s third A380 destination, following the commencement of the Singapore-Sydney service on 25 October 2007 and the Singapore-London service on 18 March 2008. The fact that Tokyo is the A380’s first Asian city highlights Singapore Airlines’ 40 years of dedicated service to the Japanese market. [8]

Developing new routes and enhancing services are ways for SIA to gain market share and to build customer commitment. SIA will operate its second Airbus A380 on the Singapore-London route, and will add daily A380 service to Moscow. This expands the Airbus A380 service and provides SIA with more global visibility. SIA’s Dubai route will be complimented by four weekly non-stop flights, which will continue to Houston, Texas. All flights will feature the next-generation cabin products across all three classes. On its Sydney route, SIA will introduce the new B77-300ER aircraft. In Los Angeles and New York, SIA plans to launch an all business-class service transpacific flights with its five A340-500LR aircraft. This will involve the expansion of business class seating from 64 to 100 seats. [9]

SIA has shown a willingness to change its branding strategy as the industry changes. In January 2007, the airline announced its intentions to tender out its existing advertising contract with Batey Ads, the Singaporean company responsible for building up the Singapore Girl brand name. The image of the Singapore Girl would still remain, although SIA will now focus on advertising and promoting its modern fleet and technology instead. In April 2007, a New York-based advertising agent, TBWA, was
hired to handle SIA’s creative advertising for the airline. SIA's Vice-President of Public Affairs stated they will start the new branding campaign very soon. [10]

Though SIA is focused on the customer and providing continually improving service, managers and staff are well aware of the need for profit and cost-effectiveness, which are key drivers to SIA’s financial condition. One of the main factors driving SIA strategic actions is its financial strength. On December 31, 2007, SIA’s value was about $20.5B with pre-tax earnings of $2.3M at the end of the fiscal year. This represented about a 9.5% annual return, outperforming other investment opportunities for the year. SIA’s return on equity (ROE) was 15.36%. ROE is considered to be a measure of efficiency with which a company utilizes its shareholder’s capital. SIA is one of the top airlines in its class realizing this great of an ROE – it is a clear indication of good profitability. SIA reported a net income of S$590M for its fiscal third quarter ending Dec. 31, 2007. Revenues increased 13.8% to S$4.28B. Net income rose 50.7%. Third quarter expenses rose 7.5% to S$3.6B and operating profit increased 50.7% to S$674.6M, up from S$447.7M in the prior year (2006). [11] Because of the financial strength, SIA has been able to “fly high” and weather the short-term dips in the industry better than the competition.

Another main factor driving SIA strategy has been to develop cost advantages. SIA has carefully built a financial and fixed cost infrastructure which allows them to continue investing while challenging the competition on costs. SIA has been able, due its strong cash position, internally fund purchases of new equipment and airplanes. Because of this, they have limited interest costs. In addition, SIA is not locked into long-term leases, and can easily accommodate newer and more efficient equipment. This has
allowed SIA to minimize maintenance costs and avoid costly aircraft downtime. With
the strategy, SIA has maintained the youngest fleet of aircraft. With the rise in fuel costs,
the newer and more efficient aircraft gives SIA the advantage over its competitors. [12]
The airline recognizes that to sustain its differentiation it must maintain continuous
improvement and be able to kill programs or services that no longer provide competitive
differentiation. SIA recognizes that its competition does not just come from within the
Airline industry. As a rule, SIA sets its sights high and instead of aiming to be the best
airline its intention is to be the best service organization. To achieve that, SIA employs
broad benchmarking not just against its main competitors but against the world’s best
service companies.

With such strategies, SIA staff members are able to deal with the potentially
conflicting objectives of excellence and profit. This is created by a cost and profit
consciousness. It’s drilled into employees from the day they start working for SIA that if
they don’t make money, they will be closed down. Also, the company has made a very
important visionary statement that “We don’t want to be the largest company. We want to
be the most profitable” says senior vice-president Yap Kim Wah. [13] As a result, any
proposed innovation is analyzed very carefully on the balance of expected customer
benefits versus costs. Station managers and frontline staff constantly trade-off passenger
satisfaction versus cost effectiveness – the customer has to be delighted but in a cost
effective manner. Like many service organizations, SIA has a rewards system that pays
bonuses according to the profitability of the company. The same formula is used
throughout the company. As a result there is a lot of informal peer pressure from
individuals within the organization; staff and managers appear quite open in challenging
any decisions or actions if they see resources being wasted or money being inappropriately spent. SIA builds team spirit within its 6,600 crew members through its “team concept”, where small teams of 13 crew members are formed and then fly together as far as possible for at least two years. This leads to the development of team spirit and social bonds within the team that reinforces the culture of cost-effective service excellence and the peer pressure to deliver SIA’s promise to customers. [13] Additionally, the more than 28,000 employees located around the world are part of a cross-cultural communication network that works. People from different cultures, work together to produce a seamless and positive customer experience, have developed clear channels of communication. The company uses a variety of newsletters, websites, and more to promote communication throughout the company. Regular sessions of dialogue between management and staff through varies programs ensures new suggestions for improvement are constantly put forward. Although with cultural barriers, SIA continues to have smooth communication flow even with some 25 countries represented in its pilot pool. [14] SIA senior managers say that “training in SIA is almost next to godliness”. Everyone, no matter how senior, has a training and development plan. As stated earlier new stewardesses undergo training for four months, longer than any other airline. This includes not only functional skills but also soft skills including personal interaction, personal poise and the emotional skills involved in dealing with demanding passengers. In addition to training, SIA also encourages and supports activities that might on the surface be seen as having nothing to do with service in the air. Crew employees have created groups such as the “Performing Arts Circle”, staging full-length plays and musicals, the “Wine Appreciation Group” and the “Gourmet Circle”. [13] These
activities help to develop camaraderie and team spirit as well as personal knowledge of the finer things in life, which feeds into the service the crew delivers in the air.

In summary, SIA is successful because it chooses to remain innovative through it philosophy of providing all of its passengers a better experience. To complement the Singapore Girl brand, SIA continues is dedication to improving passenger convenience and comfort by focusing on the needs of the business class traveler. Through the company’s dedication to the enhancement of its fleet, continuous technological improvements, and determination to maintain its rigorous customer service standards, SIA remains a leader in the airline industry. Air Transport World, a leading journal in the airline industry, has recently named SIA the “2008 Airline of the Year”. [15] SIA is making great strides to increase its market share while introducing new technology and comforts for the customer. With its cash-rich balance sheet and its branding strategy, SIA has strongly embedded itself to compete in the new landscape of the airline industry.
Questions

Our team has the following questions for SIA representatives during our visit:

1. Earlier this year, a Citigroup analyst recommended that investors sell SIA shares, citing its lower growth prospects compared to rivals like Cathay Pacific and Air China. How did SAI respond to this recommendation?

2. What is the current status of SIA’s attempt to acquire more holdings of China Eastern Airlines? What other plans does SIA have to expand into the China market?

3. The Singapore Girl brand is an internationally-renowned symbol of quality service, and she is regarded as an excellent representative of the country. SIA will start a new branding campaign very soon that will focus on advertising and promoting its modern fleet and technology instead. Do you see the Singapore Girl brand disappearing within five years?

4. Senior vice-president Yap Kim Wah made a very important visionary statement, “We don’t want to be the largest company. We want to be the most profitable.” On the other hand, SIA continues to expand its global footprint. Please explain?
References


