The Big Read in short: Can SIA fly high again?

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- Covid-19 had hit SIA like a bolt from the blue, at a time when it was facing mounting competitive pressures
- The pandemic hit SIA squarely on its core business model of premium, long-haul international flights — the first to be cancelled and likely the last to be restored
- Changi Airport air hub status is not guaranteed post-pandemic, as technological trends and alternative hubs pose a threat
- When the restart comes, SIA will need ready and trained personnel to jump on the wagon
- Global debate ongoing over the role of flag carriers, as the aviation industry is expected to consolidate in the months and years ahead

SINGAPORE — Despite the odds in its early years in the 70s, Singapore Airlines (SIA) quickly became a runaway success, standing out from its rivals by going against the grain in many ways.

To Singaporeans, its fortunes also put the Republic on the world map, and came in tandem with the rise of Changi Airport as an aviation hub.

“You may have never been to Singapore. But you would have heard of SIA, or flown with them before,” said Mr Priveen Raj Naidu, an independent aviation analyst.

But the good times have become a distant memory. as the Singapore icon now faces a storm unlike any other it had encountered before. Covid-19 had hit SIA like a bolt from the blue, and at a difficult time.

The national carrier’s chief executive officer Goh Choon Phong called it “the greatest challenge in the SIA’s Group’s existence” in an internal memo to his staff in March, as international travel came to a virtual halt due to the pandemic.

SIA recorded its first full-year loss of S$212 million for the 12 months ending March 31, after staying profitable throughout its 48-year history. Earlier in September, it announced plans to cut around 4,300 positions, affecting around 2,400 staff.

Compared with its rival airlines, Covid-19 has clipped SIA’s wings more severely, said aviation insiders. SIA cannot simply weather the storm by hunkering down, as it has to do more to become a game changer like before, they told TODAY.

Institute of Policy Studies senior research fellow Dr Faizal Yahya said: “The fact is SIA had succeeded (thus far), despite the twin Gordian Knot of the lack of domestic market and oil resources. Their competitors have these in abundance, therefore, SIA’s strategy has to evolve beyond the premium passenger segment.”

RIVALS CAUGHT UP

Before Covid-19 struck, SIA was already facing mounting competition from its rivals.

A 2014 study of SIA successes in achieving consistent profitability amid the competition found that the airline was able to do so through its ability to transcend “organisational paradoxes”.

Essentially, SIA was able to provide service excellence and innovation, while being a low-cost leader. This is a paradox since the former requires significant resource investment, which precludes the latter, said the study.

SIA managed this because it had one of the industry’s youngest aircraft fleets, a high proportion of long-haul flights, an efficient work culture, high staff productivity, as well as relatively conservative salaries.

But academics say that such success can only be possible temporarily, since it can be copied by the competition. And in the last decade, a number of airlines have done just that, boasting SIA’s formula of award-winning services at a low cost.

NUS Associate Professor Nitin Pangarkar said: “There was increasing imitation of SIA’s premium strategy. Price competition was stiff, especially for the leisure customer segment.”

Examples include the emergence of Middle East carriers such as Qatar, Etihad and Emirates.

On the other end, low cost carriers have also challenged SIA and other full-service airlines as they focused on becoming cost leaders.

Despite the competition, SIA could still hold its own. The airline was set to make an operating profit of S$253 million in the first three quarters of its 2019/2020 financial year, until the onset of Covid-19 in the final quarter caused a S$803 million operating loss.

Mr Brendan Sobie, founder of Singapore-based independent aviation consulting and analysis firm Sobie Aviation, noted that SIA’s third quarter was one of the best in recent years.

To Singaporeans, SIA’s fortunes also put the Republic on the world map, and came in tandem with the rise of Changi Airport as an aviation hub. Photo: Raj Nadarajan/TODAY

FLIGHTS BYPASSING CHANGI AIRPORT

SIA’s strategy relies on long-haul flights, business and premium travellers who use Singapore’s Changi Airport as a transit point in their journeys.

However, the recent development of newer, more fuel-efficient and longer range aircraft could enable SIA’s rivals to bypass Changi Airport altogether.

Case in point: Singapore was a common stopover for Europe-Australia flights, known as the “kangaroo route”, but Boeing’s new Dreamliner allowed rival Australian airline Qantas to launch a popular direct flight from Perth to London.

Dr Faizal said: “With better technology... alternative regional airports and rising business costs among other things, airlines need not use Changi Airport as a stopover. These are challenges for SIA to overcome and Covid-19 has accelerated the changes.”

Professor Martin Dresner from the Robert H Smith School of Business noted that given the perceived dangers of air travel currently, “passengers may prefer direct flights to their destinations, rather than connecting routes through a hub such as Singapore”.

In July, Minister for Transport Ong Ye Kung said Singapore cannot take for granted that it will remain an aviation hub even when the Covid-19 pandemic ends.

“Others will be vying for it. It's not something we take for granted. It’s something we fought for, and we’ve secured,” said Mr Ong.

FUEL HEDGING AND THE CHALLENGES POSED BY LONG-HAUL MODEL

As if the pre-existing challenges for SIA were not enough, the pandemic has turned the entire industry on its head.

When Covid-19 hit, long-haul routes were the first to be cancelled and many airlines could operate only limited domestic flights. This hit SIA squarely, since it was dependent on long-haul flights and had no domestic capacity to rely on.

SIA will continue to face fierce headwinds even after the pandemic passes, said experts.

Business travellers are less willing to be paying more for premium seats amid a global recession and may curtail business travel entirely, said Prof Dresner.

In response to TODAY’s queries, an SIA spokesman said the airline adopts a portfolio strategy with a presence in both the full-service premium and low-fare segments, which allow it to meet demand when it returns.

SIA Group comprises the main SIA passenger arm, as well as its wholly-owned subsidiaries SilkAir and Scoot, which handle regional travel and budget travel respectively.

“Our extensive global network will also help us to flexibly deploy capacity to meet the demand from different markets as air travel slowly returns,” said the spokesman.

But also adding to SIA woes in this critical time is its fuel hedging strategy, which it needed to guard against unpredictable fuel price movements since the profitability of long-haul routes are more sensitive to fuel price hikes.

SIA buys fuel up to five years in advance — longer than most airlines — when it perceives the price of fuel to go up in future.

“But hedging is a double-edged sword. SIA has indeed struggled recently with hedging — so have many others,” said Assoc Prof Pangarkar.

The unexpected oil price crash earlier this year, due to disagreements between oil-producing countries as well as reduced demand caused by Covid-19, underpinned the weakness of this strategy.

From March 2019 to March 2020, SIA recorded a hefty S$710 million in losses due to ineffective fuel hedges that matured during the fiscal year, with more losses expected in future.

SIA'S CRISIS RESPONSE

The IATA said in July that global passenger traffic is unlikely to return to pre-Covid levels until 2024, so all airlines are conserving liquidity by cutting costs.

Besides cutting passenger capacity, SIA has delayed non-critical projects, slashed its labour costs, and is negotiating with aircraft manufacturers to defer deliveries and payment of aircraft.

At the height of the pandemic from April to June, SIA saw its group revenue plunge by 79.3 per cent compared with the same period in 2019.

Group expenditures, however, did not come down as quickly, falling by 51.6 per cent year-on-year.. Together, this represented a S$1.1 billion net loss in the first quarter of SIA's financial year.

Analysts said the lack of a domestic market for SIA is ultimately its biggest handicap, since it has limited its options to generate revenue.

Nevertheless, SIA sought to increase its air freight capacity, which yielded 173 per cent more revenue for SIA in the recent quarter. However, this is not a long-term solution, said Mr Naidu.

Another alternative revenue idea is SIA's proposal for flights to nowhere, which has generated controversy due to its environmental impact.

Some analysts opposed the move, since Covid-19 rules on safe distancing and minimising oral communication could affect the customer experience and hurt the brand

But others, like former senior SIA executive Chow Kok Wah, said there will be hidden benefits to such flights — pilots and crew get to clock important flight experience and ground crews can continue to service the aircraft's equipment.

'WITHOUT SIA, THERE IS NO AVIATION HUB'

Recognising the urgent need to strengthen SIA's balance sheet, the airline in March aimed to raise around S$15 billion by issuing shares to existing shareholders and mandatory convertible bonds, with state investor Temasek Holdings pledging to mop up any remaining unsubscribed shares and bonds.

So far, it has raised S$11 billion, and SIA has an option to raise another S$6.2 billion in additional bonds.

The Singapore Government, through wage subsidies, rebates on aircraft parking charges and other relief measures, has also stepped in to aid the battered aviation sector. The government and shareholder support received by SIA has given the flag carrier a better footing, compared to other airlines.

Senior aviation strategist Gerben Broekema, who founded Netherlands-based Broekema Aviation Advisory Services, said this is unlike other flag carriers, which are already burning through their first wave of financial support.

Dr Faizal said: “SIA and Changi Airport are symbiotic to each other because they maintain and grow air connectivity crucial for Singapore… which is important for Singapore as a trade-dependent nation.”

Mr Chow added: “Without SIA, there is no aviation hub, hence the importance of ensuring SIA’s survival.”

BIG CHANGES NEEDED TO GET BACK TO THE TOP: ANALYSTS

The boost to SIA’s liquidity will help it stay on strong footing and ward off the shroud of bankruptcy, but the carrier needs to do more in order to also emerge stronger from the crisis, analysts said.

For one, SIA needs to start burnishing its post-Covid-19 brand reputation, convincing customers — loyal and new — that despite the pandemic, the airline is still a great way to fly.

And despite the direness of the situation and the job cuts which it had to implement, SIA has to ensure its pipeline of talent in the longer term is not disrupted, while keeping a ready pool of talent whom it can tap on when the industry recovers.

With the shock of Covid-19, as well as the high cost barriers to aviation education, gone are the days where flight captains, first officers and air traffic controllers are seen as desired occupations, said Mr Naidu.

Mr Abbas Ismail, course chair of Temasek Polytechnic’s diploma in aviation management, added that there will be major implications if youths shun the industry.

Beyond retaining staff, analysts called for a significant shake-up in traditional business models, which the pandemic would have made irrelevant.

Mr Chow said: “Even as the pandemic subsides there will be fits and starts as pockets of cases surfaces and countries react strongly. Even as Covid-19 fades away, authorities will be on the lookout for new diseases.”

There is also an ongoing debate about the continued role of bloated flag carriers that are artificially propped up by their governments, and an industry-wide consolidation is expected.

A post-pandemic SIA will thus look very different from its past self, though the transformation will not come easy. SIA has said it is reviewing its network over the longer term, and is expected to complete the review in six months’ time.

But if anyone can do it, it is SIA, in part due to the strong financial backing from the Government and investors, said Mr Chow.