

# Strategic management of silkair essay sample

[Business](#), [Strategic Management](#)



## Executive Summary

SilkAir's success in the regional air transportation services has proven to be achieved with the right implementation of business strategies over the years.

An analysis of the macro-environment of the airline industry with the use of the PESTEL framework was inevitably explored to better understand the current situation of the environment SilkAir is operating in. This is done so as to analyze the overall impact on the growth of Silkair. In order to provide a better understanding of the current competition and the driving force in this competitive industry, the Porter's five forces model was used to further analyze SilkAir's position in the industry.

The resources and competences of the company is what make it so successful and sustainable today. SilkAir's strategic capabilities were accessed with the Value, Rarity, Inimitability, and Non-substitutability (VRIN) concept. Several attributes were factored into the success of SilkAir achieving sustainable competitive advantage in the industry.

In summary, SilkAir has been able to maintain its position by providing an extensive network of regional travel, along with excellent service and providing competitive fares. SilkAir works to maintain this position by adding new travel routes and ensuring stringent requirements in the selection of its crews and staffs while keeping its prices at the most competitive levels.

## 1. Introduction

SilkAir is a wholly owned subsidiary of Singapore Airlines formed in 1976. Its newly appointed Chief Executive Officer (CEO), Leslie Thng, has been part of the company for 13 years. With a current total fleet of 21 aircrafts, SilkAir operates out of its base at Changi Airport to an extensive network of destinations within Asia. This strategy of flying to destinations within five-hour radius has proven to be effective and works best for the airline, being one of the most dominant airlines in Singapore.

The airline has quietly emerged as a strong competitor in the short-medium haul market dominated by low-cost carriers such as AirAsia and Jetstar. In addition to that, SilkAir is by far the most profitable brand in terms of profit margins, when compared to other airlines in the Singapore Airlines Group, which includes Singapore Airlines, Tiger Airways and the latest addition to the group, a long-haul low-cost carrier, Scoot.

Despite the difficult operating environment and challenges faced by the airline, SilkAir continuously maintain its long-term approach to product and service excellence. It has also introduced new inflight offerings and more importantly, continues to take advantage of opportunities to expand its network. In addition to that, SilkAir continues to increase the capacity to current destinations. Its wholly owned subsidiary, Tradewinds Tours and Travel Private Limited, contributes to the success of SilkAir's strategy in providing packaged tours to destinations flown by the airline.

## 2. Macro-environment Analysis

An analysis using the PESTEL framework needs to be undertaken on a regular basis as the external environment is extremely complex and dynamic (Thomas 2007). We believe that the following economic, social/cultural, technological and environmental factors are relevant to SilkAir as it influences the company as well as those in the airline industry.

### Economic

Singapore's open economy can never be fully insulated from changes in the global economy. Being exposed to the European market, the airline industry in Singapore has been impacted by the European debt crisis, which set off a wave of uncertainties in the economy and caused a global impact. The banking crisis have caused concerns about the availability of financing needed to help aircraft manufacturers, Airbus and Boeing, maintain their high levels of production (Hepher & Evans 2011). The increasing price for aircrafts due to robust demand, coupled with high fuel prices led to competition between airlines to intensify.

### Social/Cultural

The changing travel habits of people have caused certain implications for the airline industry. Thus, there is a need to cater to the different needs of the various groups of passengers. More people are traveling by air than ever before as it is now much more affordable due to competition in the marketplace as well as the increased disposable income and spending power of Singaporeans. The airline and tourism industries have both benefitted from this and significant growth is seen in these sectors. An increase in the

number of elderly and disabled traveling, along with the rising number of business travelers and students on international study exchanges contributes to the growth of the airline industry.

### Technological

The increasing use of the Internet has provided many opportunities to airlines such that they are now able to provide internet-based services that include updates on flight information and online ticket booking. Also, with the considerably cheaper fares and discounts offered by airlines on their websites, the number of visitors to Singapore has kept on increasing (Economist Intelligence Unit 2012). Booking a flight ticket is now much simpler and airlines are encouraging potential passengers to book a flight directly through their website to avoid having to go through travel agencies.

In addition to that, advanced technology has allowed aircraft manufacturers and industry experts to come up with fuel-efficient engines and airframes, and this led to impressive fuel efficiency.

### Environmental

The key priorities of the airline industry include safety, security and the environment. Due to environmental concerns, airlines are working constantly to do their part in limiting their climate change impact and reducing carbon emissions as well as noise. The need to control noise pollution as well as energy consumption is continuously being addressed to airlines. In an effort to further improve the current conditions, the International Air Transport

Association (IATA) has also done its part by adopting a strategy, which aims to reduce emissions (Singapore Airlines 2012).

### 3. Industry Analysis

The Porter's five forces model will help us to identify the attractiveness of the airline industry and from this analysis, we can derive the main driving forces in this competitive environment.

#### Barriers to entry

Barriers to entry are fundamental industry conditions that block potential entrants because the cost of overcoming those conditions is more than the profits anticipated (Warner 2010).

The boom in the civil aviation industry has led to an increased in both air travelers and airline companies in the recent years (IATA 2011). Research reveals that, of the expected 3.3 billion air travelers, 30 percent will come from the Asia/Pacific (Clarke 2011).

The airline business naturally creates a cost barrier as its entry costs are high, its competition lies among the existing players in the industry, each vying to differentiate itself in terms of service, technology, travel destinations etc. SilkAir gained competitive advantage in economies of scale in terms of purchasing power. Recently the company signed a deal to purchase a total of 68 new aircrafts to meet to the growing demand of passengers and replacing its older aircrafts (Reuters 2012a).

#### Power of Suppliers

In this high cost industry, the suppliers are fewer hence it posed a relatively strong influence over the airline companies. With limited suppliers, the choices of airline companies around the world are only tight to the two most common aircraft makers, Boeing and Airbus. Boeing recently increased the price of its passenger aircrafts by 5.5 percent and airline companies like SilkAir has to commit to the price hike (Reuters 2012b).

Another key supply to the airline industry is jet fuel. Jet fuel prices have been constantly increasing over the years (Platts 2012). The increased in suppliers' cost inevitably led to the hike in air ticket and tax prices but airline companies have to keep their prices competitive in order continue to attract customers, hence potentially taking a toll on their profits.

#### Power of Buyers

In comparison to regional flights, switching costs are low for consumers and bargaining power of buyers is high. SilkAir should keep their customers satisfied to avoid the possibility them of switching brands. With the participation of low-cost budget carriers, buyers are open to a wider selection of carriers. Studies showed that most fliers surveyed would want their air ticket prices to be as low as possible, they may not be offered the same services as compared to other normal carriers.

The next important attribute to fliers is scheduling (Consumer Travel Alliance 2011). SilkAir has an edge over budget carriers as they have the tendency of flight delays and undesirable service experience. As a subsidiary of Singapore Airlines, SilkAir have to keep its standards up to the mark to

maintain its customers database. Furthermore, SilkAir focused on regional flights at competitive prices to promote growth (Suhartono 2010). In this way, the airline offers more destinations for buyers to choose from.

### Threat of Substitutes

There are different purposes for people to travel by air and business trips make up the majority of the statistics (Mouawad 2012). The threat of substitutes lies in the advancement of telecommunications and technologies. Nowadays high-speed internet access provides convenience for people to conduct meetings over the air without the need to be there physically. Next, leisure travelers make up the next major portion for traveling. There is a potential that travelers might switch to traveling by sea if one day the cost of traveling by air is too high. However most its substitutes do not offer the same experience as air travel, for instance, sea travel takes a far longer time and certain important business trips cannot be avoided.

### Competitive Rivalry

The threat of competitive rivalry among the airline industry in Singapore is relatively high. In recent years, the competition has evolved into a price war especially since the introduction of the budget airlines. In a bid to maintain its position, SilkAir chose to differentiate itself by flying to more regional destinations at the same time offering more flight timings to suit the growing demand of regional travelers. Despite that, SilkAir is still a strong competitor in the short-haul market dominated by budget carriers (E-Travel Blackboard 2012). 4. Strategic Capabilities of SilkAir



The resources and competences of a firm will set an organization apart from its competitors. By conducting an internal analysis and using the 'VRIN' (Value, Rarity, Inimitability, Non-substitutability) concept, we are able to assess the strategic capabilities of SilkAir in achieving sustainable competitive advantage (Hoopes, Madsen & Walker 2003).

Firstly, SilkAir has proven to be successful as a regional feeder for its sister company, Singapore Airlines (SIA), with its premium product (Thomas 2011). Some of the key factors that have led to SilkAir doing very well in the airline industry as a full-fledged regional carrier include excellent service by employees, push for efficiency, its young fleet, positive brand reputation and response to crises. In spite of the many challenges faced by the airline, SilkAir continued to maintain a focus on service excellence (Singapore Airlines 2012).

The road to success begins from the hiring process, as the right people are an asset for the company and hiring the wrong people however, will be a liability for the company. In addition to the stringent selection and hiring of people, SilkAir also provides extensive training for its employees in order to develop highly efficient frontline staff, making it harder for other airlines to imitate or duplicate, as there is a certain associated mindset and values that the employees of SilkAir possess.

Being a subsidiary to SIA, SilkAir has been recognized as being able to provide the same level of reliability, safety and service as SIA, albeit at a lower cost. This gives SilkAir a competitive edge and added value, as SIA is indeed one of the sought-after airlines when it comes to excellent service.

There is great emphasis on providing attentive, friendly and relaxing service to those on board the aircraft and this is seen as SilkAir's flair as they are able to deliver. In addition to that, SilkAir has been successful in maintaining a young and modern fleet of aircraft, being known as the airline with one of the youngest fleets in Asia.

The fact that SilkAir operates from the same terminals as SIA at Changi airport rather than the budget terminal also gives it a competitive advantage. According to CAPA (2012), SilkAir has thrived and steadily outperformed its low-cost carrier competitors.

#### 5. Current Business Strategy of SilkAir

SilkAir uses the focused differentiation strategy to gain competitive advantage in the Asian medium-long haul flights industry. Differentiation refers to having uniqueness along certain dimension that is sufficiently valued by customers to allow a price premium (Johnson, Whittington & Scholes 2011). The airline focused on providing safe, reliable and affordable air transportation services of the highest quality in the region. In addition, SilkAir aims to be the world's leading regional full service airline. SilkAir is currently one of the best regional airlines and this accolade has been with SilkAir for more than ten years (SilkAir 2012).

When SilkAir was introduced as a subsidiary of Singapore Airlines, its aim was to target the lower-cost regional air transportation segment. The airline used a cost leadership strategy bringing affordable travel in the region. Air travel in the past was deemed to be a luxury and only most business

travelers were not sensitive about the airfare and that market was relatively small (Dwyer, Forsyth & Dwyer 2010). Hence SilkAir came into providing air travel to the region for the price sensitive leisure travelers.

SilkAir's destination routes increased over the years and till today with the influx of budget carriers, the airline changed its strategy to focused differentiation. In order to keep its place in the industry, SilkAir stood out as one of the airlines that provided the best services and has the widest travel networks in most of Asia, Australia, China and India. Today, SilkAir serves 39 cities in 12 countries in the region and the airline also codeshare with other regional airlines and serves as some of the airlines connecting flights to other long-haul destinations (Singapore Airlines 2012).

## 6. Evaluation of SilkAir's strategy

Firstly, according to Lynch (2009), suitability means to be appropriate for the context of the strategy of organization both internally and externally. The environment can be explored from the mixture of opportunities to be taken and threats to be avoided. Competitive advantage can be built on the organization's strengths, especially its core competencies, and from there organizations may try to rectify weaknesses that exist.

With the differentiation focus strategy, SilkAir is able to build sustainable competitive advantage and improve the corporation's performance as it fits the situation that SilkAir is in. A differentiation focus strategy capitalizes on SilkAir's ability to constantly upgrade itself and innovate. Also, SilkAir will experience less rivalry providing its service to targeted market segments

that are less price-sensitive. Looking at the industry environment analysis, the competitors of SilkAir would have difficulty attracting customers away from the airline based only on lower prices. Instead of just exploring new destinations, SilkAir also focuses on increasing capacity to current destinations offered, especially when they see that there is potential growth in these markets.

SilkAir has been successful in reaching into new market segments in various larger countries over the years. By penetrating these potential markets, SilkAir is able to develop its extensive network even further. In addition to that, its competitive fares and special packages that include accommodation have also given SilkAir an advantage over its competitors. Being in the airline industry for many years, coupled with the current technology and business know-how available, it is expected of SilkAir to be even more successful in the future than it already is.

The success of SilkAir's strategy will ultimately depend on how it is being delivered by the frontline staff and its cabin crews. Thus, it is important for SilkAir to continuously upgrade its human resources to ensure that they are equipped with the necessary skills, knowledge and experience to deliver the product and service such that it gives the brand a good reputation, as shifting the focus from product to customer will allow SilkAir to gain market share for a competitive advantage over other airlines. Looking at the resources and competences of SilkAir, it is clear that SilkAir is working towards achieving sustainable success in such a hyper-competitive market.

## 7. Conclusion

Air travel has switched from a luxury transportation to just a common mode of transportation between countries. Despite being a subsidiary of Singapore Airlines, SilkAir has a positive reputation of its own. The airline has been a dominant player in the Asian region, known for its excellent service and a wide network of destinations.

Fortunately, effective business strategies saw the exponential growth of the airline over the years from a mere number aircrafts to an impressive recent purchase of 68 new aircrafts. The airline saw the potential in regional travel and took the opportunity to expand its network from 18 to 40 destinations.

SilkAir focused only within the short-medium haul destinations and its code-sharing with other airline partners gave SilkAir the advantage of serving as a connecting flight for other long haul flights. Although the addition of several budget carriers may have affected SilkAir's customer database, SilkAir still maintains its dominance in the industry. However, future uncertainties may drive SilkAir to tough positions, as the economy and airline industry are highly volatile.

In conclusion, SilkAir may have to revise new business strategies in order to remain sustainable, as its current competitive advantage might be losing its shine in the industry.

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