

# Free report on strategic analysis of singapore airlines

[Engineering](#), [Aviation](#)



## 1. Executive Summary

This report helps in conducting a thorough analysis of Singapore Airlines. To conduct internal and external analysis of the company current situation of the company is analysed and then PEST, Porter's Five Forces Analysis and SWOT Analysis is done to find the opportunities and threats faced by company. Internal analysis is being done through value chain analysis and the analysis of strengths and weaknesses of Singapore Airlines. Then the problems faced by Singapore Airlines are analysed. Finally, different strategies are developed and the best alternatives are selected for implementation and given as recommendations.

## 2. Introduction

Singapore Airlines Limited (SIA) was created officially in 1972 and is the national airline whose history can be traced back to 1st May in 1947 in Singapore, which operates on major routes globally. It has a strong reputation in the aviation sector because of its safety and innovation and regular profitability despite of the rising and highly volatile fuel prices, stressful global financial markets, increased market competition and various security issues. SIA is a member of Star Alliance and its passenger route network covers 35 nations across 65 destinations. The company manages its regional flights through its wholly owned subsidiary SilkAir and also enjoys stake in low-cost airline markets with its stakes in Tiger Airways .

The company SIA along with its subsidiaries touches 98 destinations covering North America, Southwest Pacific, Africa, Asia, Europe and Middle East. SIA has a totally dedicated freighter fleet, called Singapore Airlines Cargo and it has also diversified into airline-related businesses. The staffs appointed by

the airline are young as well as well trained which focuses on service excellence. It has more than 29, 000 employees that comprise of a diverse mix of employees with varied skills, personalities and attributes . It has a top ranked hub in Singapore that helps it in serving their extensive network globally. SIA is the owner of all the aircrafts and has been capable of maintaining a fleet of modern aircrafts 102 in number, unlike other airlines who lease bigger part of their fleet. The average age of SIAs fleet stands at six years and eight months as on 31st March 2013, thus giving it the tag of youngest and most fuel efficient airline.

The annual report as on 31st March 2012 shows total revenues of the company is SGD 14, 857 million with 285. 9 million operating profits and the total assets possessed by the company is approximately 22, 043 million SGD .

### 3. Current Situation of the Company

SIA is the subsidiary of Government of Singapore and it holds a golden share through the Singapore's Ministry of Finance along with the holding company Temsak Holdings which currently holds 54. 5% of the voting stocks.

#### 3. 1 Assessment of Past Performance

The financial analysis of Singapore Airlines judges the major accounting ratios in order to evaluate the relative financial strength, as well as weaknesses of the company.

The profitability ratios for SIA are shown in Appendix A which has been compared against the Cathay Pacific Airways which is one of its strongest competitors. The profitability ratios show that both airlines achieved sales growth once they had undergone decline in sales and slower rate of growth,

however the sales growth of Cathay Pacific (CP) is more stable, this suggests that its competitive strategies are more in-line with its current strategic position. SIA was able to gain net profit from 2008 April (1. 15 billion SGD), but SIA was still on a slowdown, as there was an increase by 34. 5% from Y/E in 2011 to Y/E 2012 in net profit, while the airline industry showed an increase by 43. 75% in 2011. Thus SIA was not much influenced by industrial growth .

SIA's cash flow management is quite healthy as well as active and its cash balance has also increased during the first 3 years because of operational cash inflows as well as proceeds from bonds issuance. Both SIA and CP operating cash flow ratio for four years was less than 1, this means although the current assets seemed satisfactory, but their functionality was quite weak. Thus, the business operations efficiency of SIA remained quite constant, but the accounts receivable turnover was unfavourable, which reduced the activity performance due to which SIA had to suffer higher carry cost. Any kind of financial risk borne by SIA is insignificant as it did not enjoy the benefit of the tax shield because of financial leverage it enjoys. The higher P/E ratios show that investment in SIA is still a favourable option .

### 3. 2 Current Situation

SIA's new strategy has more focus on expansion in Australia and Asia market and wants less reliance long-haul routes to North America and Europe. The competition is very tough in this target market as Qantas also repositions its Singapore operations while focussing on Asia. For its Asian connection traffic Qantas is using multi-hub strategy, while SIA and Virgin are gaining an advantage because they are offering more uniform as well as convenient

product in Australia-Asia market .

#### 4. External, Industry and Competitor Analysis

##### 4. 1PESTEL Analysis

###### 4. 1. 1 Political Factors

Many nations have regulatory measures to safeguard their current domestic city airline industry so they might put restrictions on cross-border cooperation with SIA . Another factor is bilateral route agreements where SIA takes advantage of bilateral aviation agreements with UAE and between Singapore and Thailand. Unstable political environment in oil-producing nations like Iran, Iraq and Venezuela have caused soaring oil prices which will certainly impact negatively SIA.

###### 4. 1. 2 Economic Factors

These factors impact both cost & demand and capital availability so they are very important . Airline sector had to suffer huge losses because of rising oil prices and thus the ticket price increased with bunker surcharge (iBLOB Articles, 2012). Moreover the domestic inflation rate also increased from 0. 6 %( 2009) to 4. 6% (2012). Even GDP rose from \$274. 7b (2009) to \$345. 6b (2012) . Economically if we consider SIA exercises more control on capacity which resulted in higher yields and lesser competition. Code sharing within airlines leads to splitting of costs, increased access to new markets and offer better services .

###### 4. 1. 3 Socio-Cultural Factors

Considering the population of Singapore it is very small and thus the overseas customer's are very important for it. A lower rate of birth however looks very unrealistic over and above short-term solutions therefore,

foreigners are being deployed . The people in Singapore have a , higher propensity towards spending as they have higher wage rates and more enhanced consumer power. The SIA's global presence needs that it should be sensitive towards the customers socio-cultural norms as well as values.

#### 4. 1. 4 Technological Factors

SIA has been real quick in adopting the latest in-flight entertainment systems for the passengers. Moreover, the A380 aircraft introduced in SIA's fleet is the best and latest technology based aircraft; however even the competitors have liberty to buy it and this can lead to losing its competitive edge. SIA although believes in latest IT usage but it still needs to implement varied IT developments like selling online tickets, automated check-ins, electronic ticketing, etc.

#### 4. 1. 5 Legal Factors

SIA being an international class carrier it is very important for it to have license orders for flying to different destinations across varied countries. It has the flying rights over maximum countries in varied continents, but still it is finding tough to establish itself in US and Australia. Different nations have different legislation and based upon SIA's wider business; threats and confusions regarding compliance are present along with the presence of potential compliance risks. However, the Singapore Tax Law allows SIA many opportunities as lower corporate tax rate (17%, and the tax treaties (e. g. Double Tax Agreement) with different nations .

#### 4. 1. 6 Environmental Factors

Global warming and noise pollution are the main environmental issues which surround airline sector and that is why it has much higher environmental

responsibility towards reduction of carbon emissions. SIA has taken many measures for addressing major areas of environmental concern and makes sure that all the environmental policies are communicated to its staff and it constantly monitors changes in environmental legislation while auditing the compliance as well .

#### 4. 2 SWOT Analysis

SWOT Analysis helps in guiding the audit of any organisation as well as its environment. This is the first stage of Planning and helps in finding strengths, weaknesses, threats and opportunities.

The brand name of SIA is one of strongest in the airline industry and the staff is very much advanced and trained very professionally. It has introduced Boeing 747 as well as A380 which helps in enhancing its brand equity along with a good reputation, through which loyal customers are being built. It has a wider network of routes in US, Europe and Asia which helps in gaining a strong foothold in the foreign markets. It has introduced innovative in-flight services through technological improvements. It maintains effective communication across all the levels and it also gains direct access to the required ground services.

For the accounting period 2008-2012 the poorer turnover lead to bad profitability and implementing a low-cost airline will prove to be a real challenge while improving the group earnings substantially. Thus, the rudimentary marketing in both in low-cost business operations, as well as low-end consumer group, is very much immature and there can be potential; failure risks. Therefore, the independent business units like Cargo, Airport Terminal Services and Engineering can pose a risk if not managed and

controlled efficiently.

Opportunities are vast with the Open Skies agreements and the Star Alliance for exploring the markets that are untapped. Moreover, due to reduced tax obligations there is SIA's expansion through favourable tax implications.

Expanding services to more destinations will improve its financial position and market share in the airline sector for various nations like India, Middle East, etc.

On the other hand, the rising and volatile cost of fuel will impact the operational costs. There is seen growth in the Low-cost airline sector and new entrants can prove to be a threat for SIA. There are routes that offer no profitability due to political instability to SIA. There are complex international policies in global markets which can pose risk or threat to SIA. The stronger competitive environment in the no-frill low-cost budget airlines will certainly cast an impact on the sales revenue of the company.

#### 4. 3 Porter's Five Forces Analysis

##### 4. 3. 1 Threat of New Entrants

For new entrants in the airline, the cost of setting up is the biggest barrier and the issue for new entrants is to get flight access to the foreign nations along with the airport space. Thus, SIA will have continuously to work towards maximisation of its cost efficiency as well as performance to discourage the new entrants.

##### 4. 3. 2 Competitive Rivalry

SIA does not have a domestic market because Singapore is very small country in size with the population of just six million and then too it has maintained better profit margins. The barriers for entrance are high and



competition is high because there are many low-cost airlines as Qantas Airways, Jet Star Airways and Malaysia Airlines which will strive for gaining market share. Thus, competitive rivalry is high.

#### 4. 3. 3 Bargaining Power of Suppliers

The global fuel price is higher and the airline sector is dominated by the two main aircraft suppliers: Boeing and Airbus. Therefore to mitigate the power of suppliers SIA has made partnerships with airline manufacturers for purchasing aircrafts as a bloc, thus achieving higher bargaining power and reducing the supplier power.

#### 4. 3. 4 Bargaining Power of Buyers

There is a huge number of Low-cost carriers in Asian region, thus offering wide choice to customers and the switching cost is low. Thus, SIA needs to study the lifestyle, education, occupation, beliefs, attitudes and motivation of customers to develop successful marketing strategies. Therefore, the bargaining power of buyers is moderate .

#### 4. 3. 5 Threat of Substitutes

Since the airline industry is involved in flying passengers through airways there are no possible substitutes. However for the neighbouring countries there can be substitutes like travelling through boats or fast bullet trains to Malaysia, Indonesia and Philippines. There is proposed high-speed rail link between Singapore and Kuala Lumpur that can hamper the LCCs after 2020 .

### 5. Internal Analysis

The Singapore Airlines Group has more than 20 subsidiaries which cover wide range of services related to airlines starting from cargo to overhauling

of engine.

### 5. 1 Value Chain Analysis

**Firm Infrastructure:** From very start no financial aid was given to SIA, but it has strong cash position which allows it to internally fund the purchase of new equipments or airplanes, as well as limit interest costs. It buys new aircrafts while there is economic downturn. Thus the aircraft manufacturers are very much willing to offer discretionary rates to the buyers.

**Human Resources Management:** The brand Singapore Girl is the tangible reflection of SIA's professional and caring service for which 4 months training is given. By focussing on Human software, it differentiates from its competitors by staying focussed on in-flight services and they have higher retention rate.

**Inbound Logistics:** lack of domestic routes forced it to compete directly in international routes, securing flight slots, etc. It gets lowest fuel cost in the industry because of the youngest generation of aircrafts, and it is very significant as 15-20% of the total airline cost comes from fuel. SIA also hedges very carefully 20% of its fuel contracts two years in advance for avoiding cyclical and large volatility in the fuel prices.

**Operations:** It was first to introduce hot meals, free alcoholic and non-alcoholic beverages, etc. and it keeps on driving innovation in its in-flight services and thus it focuses on frills.

## **Outbound Logistics: Customers can easily track the progress of the shipments, plan their trips or make e-payments.**

### 6. Issues Faced by Singapore Airlines

Increasing tourism will make increased requirement for aircrafts and airplanes and more jet fuel which will lead to higher fuel expenses. Currently, it does not impose a fuel surcharge and imposing them will impact its brand image negatively as they have recently done many cost-cutting moves which impacted the customers directly .

### 7. Development of Different Strategies

LCCs can transform their business models in mainly three areas: generation of ancillary revenues, operating in few long-haul markets and adding full service amenities (Taneja 2008). It can go for backward integration by buying an oil refinery which produces jet fuel for personal consumption . Secondly it can go for use of aviation biofuel as most of the competitors are doing like Qantas . A third alternative is either to sell off or shut down its loss-making Australian venture and redirect the resources in expanding in Asia. Lastly, it can reduce fuel usage by making aircrafts lighter which can be done by replacing heavier parts with fibre material .

#### 7. 1 SAVED

**For achieving the desired results SAVED approach is applied through five elements: Staging, Arenas, Vehicles, Economic logic and Differentiators .**

Arenas: SIA needs to improve its jet fuel management as it will increase the efficiency of the airplanes on all the existing, as well as new destinations

routes.

Vehicle: The A320 airbus needs to be replaced by the Sharklets or the winglets; cutting down the unprofitable long haul flights, reducing weight of aircrafts and replacing the radar navigation system with GPS based navigation.

Differentiators: It can be a differentiator by not implying the fuel surcharges on the passengers as the competitors are doing so.

Staging: the four replacements stated in Vehicles should be done in two phases like overhauling and swapping of parts can be done by 2014 end for the current A320 aircrafts and in the second phase new aircrafts will undergo the same procedure.

Economic Logic: Cost saving on the fuel expenses and cutting down of jet fuel expenses will lower down the operation cost.

## 8. Selection of Alternatives

The issue of jet fuel cost needs to be handled as soon as possible to gain cost savings and to get back their net profits. Thus, the first two alternatives are not feasible. Therefore, it can either sell Australian operation's or it can implement the four affordable recommendations to achieve its objective and gain competitive advantage.

## 9. Implementation

For sustaining its primary activities, SIA needs to enter new markets like India, China or sell off its Australian operations. It also needs to simplify daily practices and internal operation processes. Its inbound logistics will help in working towards converting Airbus into the Sharklets. The outbound logistics of SIA need expansion of its Global Distribution System (GDS) in the new

markets. For the secondary activities, SIA's procurement should develop new contracts for ground services, suppliers, and airports for new markets. For technological enhancement, it will require partnership with SIAEC for working on Sharklets or carbon fibre replacing.

#### 10. Evaluation and Control

The corporate-level strategy states that SIA should actively take part in collaborating and taking part in industry best practices which should be spared across all its business units and value creating activities as it has cost leadership and diversification strategies implemented . This should go strictly with SIA's strategic control as well as per corporate governance policy.

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Appendix A: Profitability Ratios

Source: Cathay Pacific Airways (2009-2012) and Singapore Airlines (2009-2012)

Appendix B: Liquidity Ratios

Appendix C: Activity Ratios

Appendix D: Leverage Ratios

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## Appendix E : Investment Ratios

## Appendix F

### Rising Oil Prices:

Rising oil prices will always have adverse impact on the profitability. The political situation in Iraq in 2007 has driven the oil prices to all time record high and for SIA this oil price rise has added more than £100 million to their costs. The cost of fuel charges is always at risk for SIA (IATA, (2011)).

High oil price remains a challenge, but SIA could still ease this situation given the rising fuel charges by fuel hedging and introduction of new products with higher fares. The current strong air travel demand and network rationalization by the industry will also help SIA. SIA has to phase out less fuel efficient aircraft and has to cut down on long routes due to high oil prices.

## Appendix G

### SWOT Analysis of SIA