Sia

Business

Even despite recording lower operating profits that arrives from high Jet fuel prices and lower returns due to weak global economy.

Fig 1. 1 Financial review of 3 (taken from ASIA PAYOFF report) Based on the PAYOFF report, ASIA (2013) reported that: “ During the financial year, air travel and freighter demand continued to be affected by the ongoing weakness in the Rezone and sluggish recovery in the United States.

Yields were diluted as tactical promotions were launched to boost loads amid intense competition and key revenue-generating currencies depreciated against SAG. Fuel prices remained high despite the weak global economic conditions. This had negatively impacted the Group’s operating performance as fuel cost is the largest cost component, constituting about 40 per cent of the Group’s operating expenditure. Group revenue grew $240 million (+1.

6 per cent) to $15, 098 million, mainly from airline operations, as a result of stronger passenger carriage, albeit at lower yields.

This was partially offset by lower cargo revenue from a contraction In both loads and yields. ” With reference to Fig 1 . 1, despite the improvement of revenue compared to IFFY, the core business operating profits has dropped 19. 8% comparatively. Yields and loads from both passenger and cargo businesses were weaker than expected even though attempts to boost traffic were made.

With ASIA highlighting that, the core business are expected to remain under pressure.

Moreover, with the addition of rival airlines and the depreciation of revenue-generating currencies against the SAG, his is a concern to ASIA as it would greatly impact the future of the company. Problem Statement Since 2012, ASIA faced Intense competition from the rise of Gulf carriers at the premium market and budget airline rivals at the price-orientated end. ASIA Is attempting to overhaul the company strategy to revive growth by entering Into the low-cost market with Scoot and reducing operating cost at its' premium market. Challenges in the Premium Market Figure 1.

Premium Passengers Traffic (Taken from DATA) From Figure 1. 2, the graph shows that the number of premium passengers are growing but at a slower rate compared to 2012. Moreover, it also suggests that air travel growth is unlikely to increase in a short period of time and expects the trend of growth to stick at the current rate. Although Sis's promotions on long-haul routes had boosted traffic, yields are still under pressure as the premium class travel, which contributed up to 40 percent of revenue, was hit by reductions in corporate budgets.

According to an article made by Reuters (2013), ASIA have competitors who have strong financial backing and new alliances were formed, which makes it an even tougher for the premium markets and the majority of it is due to the Gulf carriers.

Companies like Qatar, Emirates and Edited are investing heavily to upgrade lounges, enhancing services and other products to challenge for the title of top luxury carrier.

Therefore as part of a plan to keep the company competitive in the premium market, ASIA had announce plans to overhaul its cabins and implement cost cutting measures on its' operations as it faces intense competition from both premium and budget carriers. In January 2013, ASIA had announced to release 76 pilots who were employed on fixed- term contracts. Normally, the pilots would be released upon expiry of their contracts, UT due to the surplus of pilots in ASIA, these pilots would be released by June 30, 2013.

Moreover, according to an online news article, Businesswoman (2013) added that ASIA had earlier implemented other measures to address the surplus, such as voluntary no pay leave and the suspension of cadet pilot recruitment. Budget Airline market As part of Sis's answer to the budget airline market, Scoot was announced in 2012 to offer consumers with affordable flights.

Sis's original answer to Budget Airline rivals, Tiger Airways, did not performed well and therefore, ASIA had reduced its stake from 49% equity to an estimate around 32%.

The confusion between two low cost brands owned by or associated with the Singapore Airlines brand and supposedly operating at arms length is causing apprehension in some quarters as to whether all of Coot's potential will be realized. At the moment Scoot is also in the market with fares and add-ones that amount to real value competition with the full service economy product sold by the parent airline, and in the Scottie or premium economy format, they appear capable of taking business class passengers off it as well.

These deals contradict claims that Scoot will not compete directly with its parent airline. For Singapore Airlines, figuring out the strategic role it plays within the larger ASIA Group is of utmost importance.

As the ASIA Group focuses its Asian growth on Silkier and embarks on a low-cost long-haul subsidiary Scoot Airlines, Singapore Airlines has seemingly lost its focus on what it does best and where it excels – serving premium traffic.

With Scoot Airlines expanding and flying to Gold Coast, Sydney, Taipei, Tokyo, Tannin and Bangkok and look to further expand to destinations such as Changed, yield cannibalistic with the namesake ASIA unit is all but inevitable. And in order to thrive and differentiate itself against competing rivals such as Starters Asia and Eurasia, Scoot Airlines must live up to its initial vision of being an airline with character that has “ Scooted”, which is so far not the case albeit with an pad offering as in-flight entertainment (FIFE) that reduces an aircraft’s weight by 7% and increases seating by 40%.

As Scoot will only have a 1% capacity share at Singapore Changing by end of 2012, Singapore Airlines cannot afford to stand still while relying on Scoot Airlines to recover its lost market share overnight. Simply put, Scoot is no panacea for Singapore Airlines.

What Singapore Airlines needs to do to excel in this competitive era is to offering, a strong network, a young fleet, overhaul its cabin offerings with the addition of a premium economy class that extracts consumer surpluses and boosts profitability and brings Singapore Airlines to its heydays once again.

While it is true that " what is new today is old tomorrow' and that its unique unmatched service standard matters most, the success formula needs to be renewed and reinvested in. Being proud, sitting back and letting time passing by while other Asian competitors catch up and significantly improve their product offerings is by no means a sound airline business strategy. Singapore Airlines has already fallen behind in the past few years, and it should renew its business model which bodes well for an ultimate global economic recovery.

Fortunately, for Singapore Airlines, it has plenty of flexibility and a strong balance sheet to make any significant investments.

Though whether Singapore Airlines would listen to these wake-up calls, face the reality and innovate once again is an utterly different issue.