

Winning In Hyper-competitive Industries

Lessons From Singapore Airlines



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Singapore Airlines (SIA) has achieved the holy grail of strategic success: sustainable competitive advantage. It has consistently outperformed its competitors throughout its history, and achieved substantial returns in an industry plagued by intermittent periods of disastrous under-performance and disruptive uncertainties. One key element of SIA's competitive success is that it manages to navigate skilfully between poles that most companies think of as distinct – delivering service excellence in a cost-effective way, at cost levels so low that they are comparable with many budget airlines' costs. Cost effective service excellence at SIA is achieved through a unique, self-reinforcing activity system structured around five pillars: rigorous service design and development; total innovation; profit and cost consciousness ingrained in all employees; holistic staff development; and finally, reaping of strategic synergies through related diversification and world-class infrastructure.

Rigorous service design and development

SIA has a service development department that hones and tests any change before it is introduced. This department undertakes research, trials, time and motion studies, mock-ups, and assessments of customer reaction, to ensure that a service innovation is supported by the right procedures. Underpinning continuous

innovation and development is a culture that accepts change as a way of life. A trial that fails or an implemented innovation that is removed after a few months are not seen as problems. SIA expects that any innovation is likely to have a limited shelf life, and recognises that to sustain its differentiation it must maintain continuous improvement and be able to end or rethink programmes or services that no longer provide competitive differentiation.



SIA's research team has found that SIA draws a disproportionately large number of very demanding customers. The airline capitalises on this by treating customer feedback as a resource for innovative ideas. Weak signals are



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amplified, and both written and verbal comments to the crew are taken seriously and reported back to the relevant sections of the airline. An additional source of intelligence is SIA's "spy flights", where advisors travel with competitors and report on their offerings. SIA recognises that its competition does not just come from within the industry, so 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 best service companies.

Total innovation: integrating incremental development with unanticipated, discontinuous innovations

An airline has a multitude of sub systems, such as reservations, catering, maintenance, in-flight services and entertainment systems. SIA does not aim to be a lot better but just a bit better in every one of them than its competitors. This means constant innovation but also total innovation in everything, all the time. Importantly, this also supports the notion of cost effectiveness. Continuous incremental development at SIA comes at a low cost but delivers that necessary margin of value to the customer. While cost-effective, incremental improvements are an important basis for its competitive advantage, SIA also implements frequent major initiatives that are firsts in its industry, both on the ground and in the air. One example is its use of biometric technologies

to provide an integrated service of check-in and receiving a seat allocation, and clearing immigration and police checks within 1 to 3 minutes. Further, SIA has made the strategic choice to be a leader and follower at the same time. While being a pioneer on innovations that have high impact on customer service, it is also a fast follower in areas that are less visible from the customer's point of view (such as revenue management and customer relationship management). In doing so, SIA relies on proven technology that can be implemented swiftly and cost-effectively.

Profit-consciousness ingrained in all employees

Though SIA is focused on providing service excellence, managers and staff are also well aware of the need for profit and cost-effectiveness and are able to deal with the potentially conflicting objectives of excellence and profit. This ability is created by a cost and profit consciousness, where any proposed innovation is analysed very carefully on the balance of expected customer benefits versus costs. There are regular internal communications at SIA that educate employees in the harsh business realities of the airline industry to reinforce and provide a context for this profit consciousness. Further, and 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 to



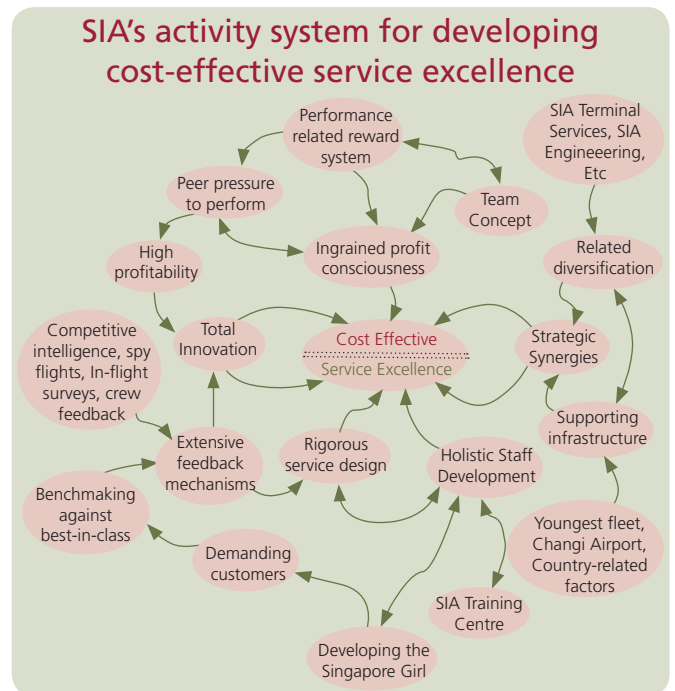
perform from individuals within the organization. Finally, profit consciousness is also reinforced by SIA's team spirit within its 6,600 crew members built through its "team concept", where small teams of 13 crew members are formed and then fly together as far as possible for at least two years.

Developing staff holistically

Senior managers say that "training in SIA is almost next to godliness". Everyone, no matter how senior, has a training and development plan. New stewardesses undergo training for four months, longer than any other airline and twice the industry average. This training includes not only functional skills but also soft skills including personal interaction, personal poise and the emotional and behavioural 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". 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.

Achieving strategic synergies through related diversification and world-class infrastructure

SIA uses related diversification to achieve cost synergies and at the same time control quality and enable transfer of learning. Subsidiaries serve not only as the development ground for management skills and a corporate rather than a divisional outlook through job rotation but also as sources of learning and transfer of best practices. In addition, related operations have healthier profit margins than the airline business itself because



competitive intensity is lower and the industry structure is more favorable. SIA's subsidiaries operate under the same management philosophy and culture that emphasises cost-effective service excellence. Even though they are part of the group, they are listed separately on the Singapore Stock Exchange and are subject to market discipline with clear profit and loss expectations. They have to be competitive and win orders from other airlines as well as SIA. In SIA the conventional wisdom of outsourcing (outsource "peripheral" activities and focus on what you do best) does not readily apply since external suppliers might not be able to offer the value that SIA's own subsidiaries can offer. This kind of related diversification within SIA leads to strategic synergies in terms of reliability of key inputs, high quality, transfer of learning and cost effectiveness.

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Bringing it all together: building a self-reinforcing activity system and achieving strategic alignment

How do these elements combine to lead to cost-effective service excellence? The five pillars interrelate through a self-reinforcing activity system of virtuous circles, which makes the organizational core competency of cost-effective service excellence and the related cultural values more than just abstract ideas. These are ingrained not only in the minds of employees but also in organizational processes. This may help to explain the sustainability of SIA's competitive advantage; while it is easier to copy single elements, it would be almost impossible for competitors to reproduce an entire, self-reinforcing system.



The Singapore Airlines success model highlights the importance of nurturing capabilities for continuous innovation, investing in human resources to an extent beyond the industry average and in a way that allows the development of differentiating skills, fostering the right organizational culture, and configuring the organization design and processes to deliver the competencies that the company needs to support its strategy.

This success model also offers a good example of the elusive beast of strategic alignment. As the activity systems map above illustrates, there is "horizontal" alignment at SIA among the various organizational processes that make up the five pillars. Importantly, though, there is also "vertical" alignment between the following four elements: salient features of the environment, the strategy, the company's core competencies, and the organizational configuration, as shown below:



This vertical alignment shows that organizational configurations do not exist in a vacuum and should not be a certain way because of organizational history, inertia, personal preferences, or even following best practices that may not be suitable for the company's specific situation. Rather, organizational configurations should specifically give rise to the core competencies that the organization needs to support its strategy; and the strategy in turn should take account of key trends and features of the environment. With clear strategic alignment at the horizontal and vertical dimensions, an organization in competitive markets would be hard to beat.

Further reading

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