

# Cost-effective service excellence: lessons from Singapore Airlines

Singapore Airlines is well known as a paragon of in-flight service. It is also a remarkably efficient and profitable airline and has been for decades. **Loizos Heracleous, Jochen Wirtz** and **Robert Johnston** explain how it combines service excellence with cost effectiveness.

**Singapore Airlines (SIA) has achieved the Holy Grail of strategic success: sustainable competitive advantage. It has consistently outperformed its competitors throughout its 30-year history. In addition, it has always achieved substantial returns in an industry plagued by intermittent periods of disastrous under-performance (see Table 1).**

SIA has done this by managing to navigate skillfully between poles that most companies think of as distinct – delivering service excellence in a cost-effective way. SIA's awards list is long and distinguished. In 2002 alone it won no less than 67 international awards and honours including “best airline” and “most admired airline” in the world in *Fortune's* Global Most Admired Companies survey.

Since Michael Porter's influential suggestion that differentiation and cost leadership are mutually exclusive strategies and that an organisation must ultimately choose where its competitive advantage will lie, there has been fierce debate about whether a combined strategy can be achieved – and sustained over the longer term. SIA is proof that the answer to both these questions is positive. So, how does it consistently deliver premium service to demanding customers in an industry where both price pressures and customer expectations have been continually rising?

In common with many other organisations with a reputation for providing excellent service, SIA has top management commitment to service, customer-focused staff and systems, and a customer-oriented culture. However, our research into SIA, spanning many years and at all levels in the organisation, has uncovered a number of insights into developing and maintaining a reputation for service excellence that is applicable to a wide range of service organisations.

Ultimately, SIA's success is attributed to a customer-oriented culture, its recognition of the importance of its customers. "Our passengers are our *raison d'être*. If SIA is successful, it is largely because we have never allowed ourselves to forget that important fact," says Dr Cheong Choong Kong, former CEO of SIA.

However, what distinguishes SIA's culture is that these are not just abstract, "motherhood" statements. The values of cost-effective service excellence are enshrined in a unique, self-reinforcing activity system that makes the values real for all employees.

We found that the five pillars of this activity system (see Figure 1) are:

- rigorous service design and development
- total innovation (integrating continuous incremental improvements with discontinuous innovations)
- profit and cost consciousness ingrained in all employees
- holistic staff development;
- reaping of strategic synergies through related diversification and world-class infrastructure.

#### **Rigorous service design and development**

Twenty years ago Lyn Shostack complained that service design and development is usually characterised by trial and error. Unlike manufacturing organisations, where R&D departments and product engineers were routine, systematic testing of services, or service engineering, was not the norm. Things appear to have changed little since then. SIA, however, has always regarded product design and development as a serious, structured, scientific issue.

Performance metrics	SIA	United	Northwest	Continental	American	Delta	BA	Cathay	KLM	Qantas
Revenues \$m	5,133	16,138	9,905	8,969	18,963	13,879	12,103	3,903	5,788	5,207
Net income (loss) \$m	343.2	(2,145)	(423.0)	(95.0)	(1,762)	(1,027)	(206.1)	84.2	(138.2)	212.3
Net profit margin (%)	6.68	-----	-----	-----	-----	-----	-----	2.16	-----	4.08
Operational profit margin (%)	10.4	-----	-----	0.016	-----	-----	-----	2.73	-----	6.83
Revenue / cost ratio	1.12	0.81	0.92	1.02	0.88	0.93	0.99	1.03	0.99	1.07
Revenue per \$1,000 labour cost	5,310	2,279	2,499	2,969	2,361	2,266	3,581	3,989	3,739	3,995
Net income per Load Tonne – Km \$0.001	2.73	(10.53)	(3.06)	(1.02)	(8.64)	(6.27)	(1.55)	1.03	(1.35)	2.54

**Table 1** Singapore Airlines' performance relative to competitors

Sources: Annual Reports for the airlines' most recent financial year. IATA World Air Transport Statistics 2001; www.exchangerate.com (past rates based on respective report dates).

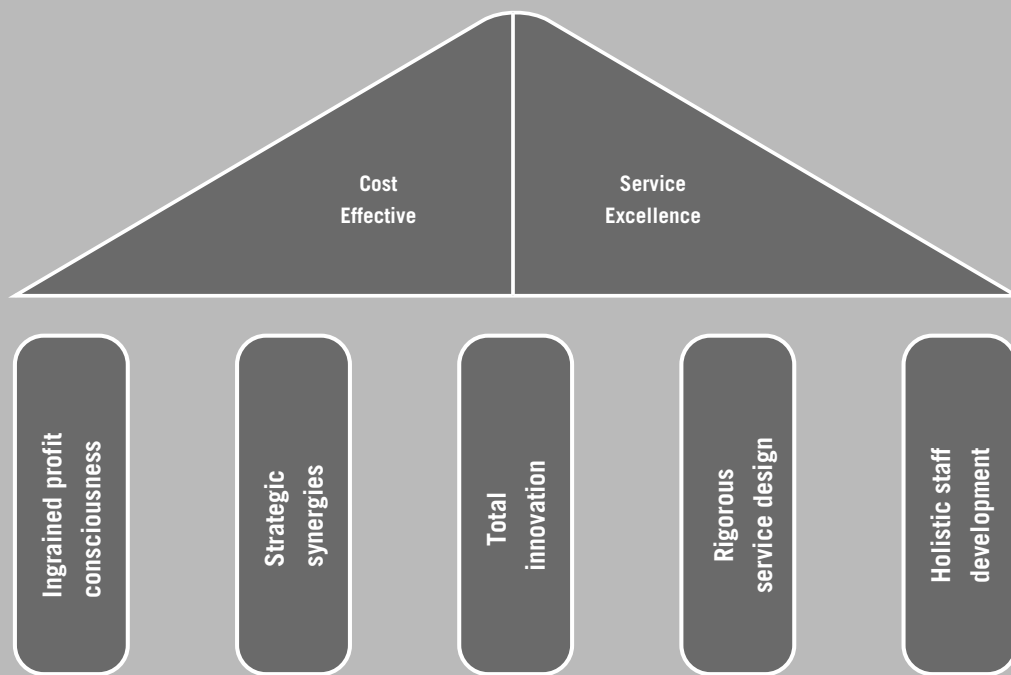


Figure 1 The five pillars supporting SIA's cost-effective service excellence

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, assessing customer reaction – whatever is necessary 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. In some organisations personal reputations can be at stake and so pilot tests “have to work”. At SIA a failed pilot test damages no-one’s reputation.

In some organisations, service, and indeed product, innovations live beyond their useful years because of political pressure or lack of investment resources. SIA expects that any innovation is likely to have a short shelf life. The airline recognises that to sustain its differentiation it must maintain continuous improvement and be able to kill programmes or services that no longer provide competitive differentiation.

According to Yap Kim Wah, senior vice-president, product and service: “It is getting more and more difficult to differentiate ourselves because every airline is doing the same thing...the crucial fact is that we continue to say that we want to improve. That we have the will to do so. And that every time we reach a goal, we always say that [we’ve]

got to find a new mountain or hill to climb...you must be able to give up what you love”.

Customers as well as competitors raise the stakes for SIA. A company with a high reputation attracts customers with high expectations. SIA’s research team has found that SIA draws a disproportionately large number of very demanding customers.

“Customers adjust their expectations according to the brand image. When you fly on a good brand, like SIA, your expectations are already sky-high. And if SIA gives anything that is just OK, it is just not good enough,” says Sim Kay Wee, senior vice-president, cabin crew

SIA treats this as a fundamental resource for innovative ideas. Weak signals are amplified. Not only written comments but also 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.

Finally, SIA recognises that its competition does not just come from within the industry. As a rule, SIA sets its sights high and instead of aiming to be the best airline its intention is to be the best service organisation. To achieve that, SIA employs broad benchmarking not just against its main competitors but against the best service companies.



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"It is important to realise that [our customers] are not just comparing SIA with other airlines. They are comparing us against many industries, and on many factors. So when they pick up a phone and call up our reservations, for example, they are actually making a mental comparison, maybe subconsciously, to the last best experience they had. It could be a hotel; it could be to a car rental company," says senior vice-president, product and service, Yap Kim Wah.

"If they had a very good experience with the hotel or car rental company and if the next call they make is to SIA, they will subconsciously make the comparison and say 'How come you're not as good as them?' They do not say 'You have the best telephone service system out of all the other airlines I've called'. Being excellent, our customers, albeit subconsciously, will benchmark us against the best in almost everything."

***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 comes at a low cost but delivers that necessary margin of value to the customer.

"It is the totality that counts. This also means that it does not need to be too expensive. If you want to provide the best food you might decide to serve lobster on short haul flights between Singapore and Bangkok, for example; however, you might go bankrupt. The point is that, on that

route, we just have to be better than our competitors in everything we do. Just a little bit better in everything. This allows us to make a small profit from the flight to enable us to innovate without pricing ourselves out of the market," says Yap Kim Wah.

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 "Outstanding service on the ground" programme.

This initiative involved working with the many other organisations that impact on customer service before and after a flight to ensure a seamless, efficient and caring service.

SIA's latest service excellence initiative, called "Transforming customer service" (TCS), involves staff in five key operational areas – cabin crew, engineering, ground services, flight operations and sales support. The programme is about building team spirit among staff in key operational areas aimed at ensuring that the whole journey from the purchase of the ticket onwards is as pleasant and seamless as possible.

SIA employs an innovation approach called the "40-30-30 rule". It focuses 40 per cent of the resources on training, 30 per cent on the review of process and procedures, and 30 per cent on creating new product and service ideas.

In addition to continuous incremental innovations, SIA's reputation as a service innovator is also based on unanticipated, discontinuous innovations in the air. Examples of current innovations include the full-size "space-bed" and on-board email and Internet services in business and first class. In addition, SIA has made the strategic choice to

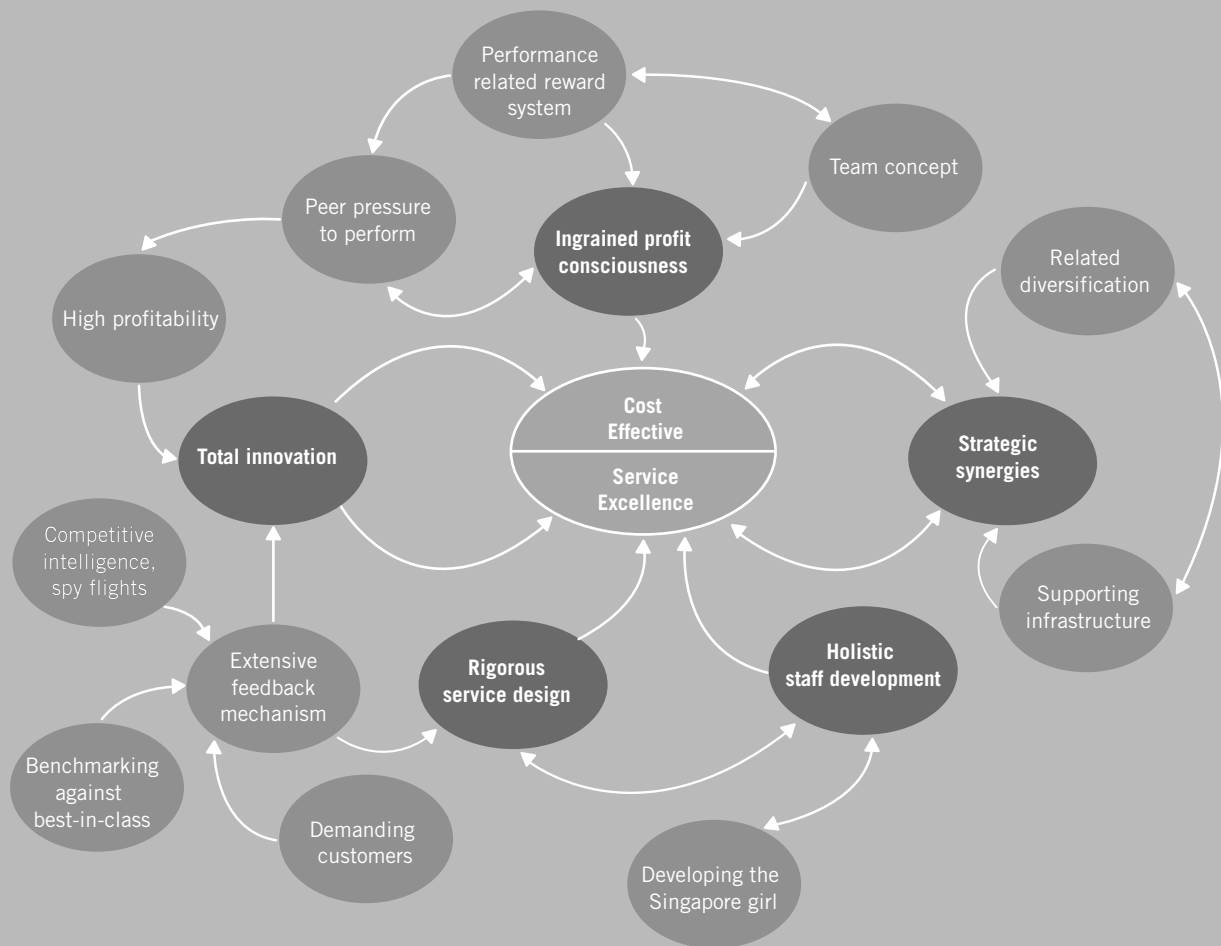
be a leader and follower at the same time. It is a pioneer on innovations that have high impact on customer service (for example in-flight entertainment, beds and on-board email). However, it is also a fast follower in areas that are less visible from the customer's point of view. In doing so, SIA relies on proven technology that can be implemented swiftly and cost-effectively.

For example, SIA's revenue management and customer relationship management (CRM) systems use proven technology where its partners had the experience to ensure a smooth and cost-effective implementation rather than going for the latest technology, which would not only be much more expensive but also carry a higher implementation risk.

**Profit-consciousness ingrained in all employees**

Though SIA is focused on the customer and providing continually improving service, managers and staff are well aware of the need for profit and cost-effectiveness. All staff are able to deal with the potentially conflicting objectives of excellence and profit. This is created by a cost and profit consciousness.

“It’s drilled into us from the day we start working for SIA that if we don’t make money, we’ll be closed down. Singapore doesn’t need a national airline. Second, the company has made a very important visionary statement that “We don’t want to be the largest company. We want to be the most profitable”. That’s very powerful,” says senior vice-president Yap Kim Wah.



**Figure 2** Singapore Airlines' self-reinforcing activity system for developing cost-effective service excellence.

As a result, any proposed innovation is analysed very carefully on the balance of expected customer benefits versus costs. Station managers and frontline staff constantly trade-off passenger satisfaction versus cost effectiveness – the customer has to be delighted but in a cost-effective manner.

Second, and like many service organisations, 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 from individuals within the organisation; staff and managers appear quite open in challenging any decisions or actions if they see resources being wasted or money being inappropriately spent.

SIA builds team spirit within its 6,600 crew members 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. This leads to the development of team spirit and social bonds within the team that reinforces the culture of cost-effective service excellence and the peer pressure to deliver SIA’s promise to customers.

#### **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. This includes not only functional skills but also soft skills including personal interaction, personal poise and the emotional 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.

In addition, related operations (such as catering, aircraft maintenance, airport management) have healthier profit margins than

the airline business itself because competitive intensity is lower and the industry structure is more favourable. SIA Engineering, for example, ensures that SIA does not pay expensive aircraft maintenance fees to other airlines; rather, it sells such services to other airlines at healthy margins. SIA’s fleet, the youngest in the world, ensures low maintenance costs, low fuel expenses and high flight quality. SIA’s Inflight Catering Centre produces SIA’s own inflight cuisine, ensuring high quality, reliability and responsiveness to customer feedback, but also caters for other airlines at a healthy margin.

SIA’s SATS Group subsidiary manages Changi Airport, which is regularly voted the best airport in the world. This airport management and infrastructure entices passengers who are travelling on to Australia, New Zealand or other countries in the region to pass through Changi and to choose SIA as their carrier.

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 quoted separately on the Singapore Stock Exchange and are subject to market discipline with clear profit and loss expectations. In SIA the conventional wisdom of outsourcing (outsource “peripheral” activities and focus on what you do best) does not apply. External suppliers would not be able to offer the value that SIA’s own subsidiaries can offer it. This kind of related diversification within SIA leads to strategic synergy in terms of reliability of key inputs, high quality, transfer of learning and cost effectiveness.

#### **Bringing it all together: building a self-reinforcing activity system**

How, specifically, do these elements lead to cost-effective service excellence? The five pillars of SIA’s cost-effective service excellence are made real through a self-reinforcing activity system of virtuous circles (see Figure 2). The cultural values of cost-effective service excellence are more than just abstract ideas. They are ingrained into the minds of both employees and organisational processes. This may help to explain why SIA’s competitive advantage has been sustained for so long. While it is easy to copy single elements, it is much harder to reproduce an entire, self-reinforcing system. ■

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