SIA's success secret is a tough balancing act

Academics expound on airline's dual strategy in Harvard Business Review

By **ANNA TEO**

[SINGAPORE] A premium service provider is unlikely to be a cost leader. Or so it would seem. Singapore Airlines, however, has debunked the notion with its dual strategy of world-class service and cost leadership.

In fact, no company executes a dual strategy better than SIA, say two business school professors who have spent nine years studying the carrier's practices and philosophies. Their article on their findings, titled "Singapore Airlines' Balancing Act", is published in the July-August edition of the *Harvard Business Review*.

"It's intriguing that SIA has combined the supposedly incompatible strategies of differentiation – which it pursues through service excellence and continuous innovation – and cost leadership," say Loizos Heracleous, professor of strategy at Warwick Business School, and Jochen Wirtz, associate professor of marketing at the National University of Singapore.

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Winning formula: *SIA manages planes and people so that its service is better than rivals' and costs are lower*

Despite its top-notch service quality billing, SIA is also one of the industry's most cost-effective operators, they note.

From 2001 to 2009, its costs per available seat kilometre were 4.58 cents – compared to a range of eight to 16 cents for full-service European airlines, seven to eight cents for American airlines, and five to seven cents for Asian carriers. SIA's costs were lower even than most European and American budget carriers, the professors found.

"Jochen started his interviews at SIA in 2001 and I joined him in 2003," Prof Heracleous, who taught at NUS for seven years before moving to the UK, told BT via e-mail.

"We wanted to understand what underpins the competitive advantage of SIA, and studied various aspects such as how it organises its human resource development and its innovation processes. We spoke to management at various levels, several times over the years, as well as studied other data such as annual reports and published articles and case studies on SIA."

The professors produced various pieces of research along the way, as well as a book titled *Flying High*, first published in 2006.

Few firms have executed a dual strategy profitably, they note in the HBR article, and indeed, management experts such as Michael Porter argue that it's impossible to do so for a sustained period, given the "contradictory investments and organisational processes" the strategy entails.

On its part, SIA executes a dual strategy by managing four paradoxes, the professors found. It provides service excellence cost-effectively; it innovates "in both a centralised and a decentralised manner"; it is both a technology leader and a follower; and it can both standardise and yet personalise in its processes.

"SIA's self-reinforcing system is difficult to imitate, yielding sustainable competitive advantage," the professors say, adding: "The dual strategy has become part of the airline's organisational DNA over the years."

In short, "SIA manages its two assets – planes and people – so that its service is better than rivals' and its costs are lower".

It "doesn't try to be overwhelmingly best in class on every count" – "anything that touches the customer must be consistent with SIA's premium positioning", but "everything behind the scenes is subject to rigorous cost control".

So it spends more than its rivals in key areas: Faster renewal of its fleet, quicker depreciation of its planes, and innovation. It invests heavily in staff training, and staffs each flight with more cabin crew members than do other airlines.

As a result, it spends less – on price per aircraft; on fuel, maintenance and repair; on sales and administration; and on salaries. And in areas that do not affect the customer experience, such as back-office technologies, SIA chooses to lag behind rivals, the professors note.

"By being different in ways that customers like, companies that do so rise from the pits of commoditisation and make profits even in highly competitive industries."

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