

SQ22'S FINAL FLIGHT

SIA facing strong headwinds



NEWS ANALYSIS

By **KARAMJIT KAUR**
 AVIATION CORRESPONDENT

THE end of non-stop flights to New York seems to be just the latest sign of how Singapore Airlines (SIA) has been hit hard by the slowdown in the long-haul premium travel market since 2008.

It was a grand global affair in February 2004 when SIA launched the world's longest flight from Singapore to Los Angeles with the ultra long-haul Airbus 345 aircraft. Four months later, it beat its own record with a 19-hour non-stop flight to New York.

Flying high on the back of solid demand from corporate travellers, SIA in 2008 converted its two-class aircraft into an all business-class plane. The A-345 went from 64 seats in business class and 117 in the premium economy cabin to 100 seats.

Then the global financial crisis hit soon after. Companies slashed travel spending while the price of oil spiked.

Demand eventually returned but by then SIA lost pricing power with tough competition from rivals, even as many corporations stuck to their leaner travel budgets. In July, the airline slashed prices by as much as \$5,000 with a \$6,777 deal to Los Angeles and \$7,969 to New York.

After the heavy losses it is believed to have suffered – the airline never revealed the numbers – SIA terminated its non-stop flight to LA last month. The last service to New York leaves Changi Airport today.

Five years after the 2008 financial meltdown, SIA still faces major challenges on all fronts.

The strengthening of the Singapore dollar against major currencies, for example the Japanese yen and the Australian dollar, is a problem, said SIA, because it affects earnings in those markets.

Critically, yields – what the airline makes for every kilometre a passenger travels – are also sliding. From April to September, monthly passenger yields fell to between 10.9 cents and 11.3 cents. A year ago, it was between 11.2 cents and 11.6 cents.

SIA's chief financial officer Chan Hon Chew said last week: "Yields have now fallen to the levels we last saw three years ago – that's in 2009/2010 – in the year that was the most affected by the global financial crisis."

Rival Cathay Pacific is doing better, pointed out Mr Timothy Ross, the head of Asia-Pacific transport research at Credit Suisse. In the first half of the year, Cathay Pacific and subsidiary Dragonair reported a 4.4 per cent increase in yields compared to the same six months last year.

SIA seems to be more focused on putting bums on seats with hefty discounts which dilutes its premium branding, instead of improving yields, said Mr Ross. Last week, SIA had an under \$90 offer for a one-way ticket to Kuala Lumpur – cheaper than what some budget airlines charge. And while its previous fare deals typically required two passengers to travel together, this is not the case any more.

With no steep rise in premium traveller numbers and fares being cut in economy, some analysts are questioning SIA's strategy. Yes, the airline has been relentless in cutting costs and enhancing productivity but it has been unable to charge premium prices in competitive markets, they point out.

Others however are more upbeat, noting how, despite the challenges, SIA remains in the black. Between April and September, the parent airline recorded a 10 per cent increase in year-on-year operating profit to \$186 million.

Singapore-New York return economy fares



Singapore Airlines also flies to New York via Frankfurt. PHOTO: REUTERS

Singapore Airlines Stops in: Frankfurt Price: \$2,697 to \$3,317	Price: \$1,832 to \$3,452	\$3,059
Delta Air Lines Stops in: Tokyo Price: \$1,720	Cathay Pacific Stops in: Hong Kong Price: \$2,390 to \$7,813	<p>■ Total flight time ranges between 20 hours 10 minutes and around 24 hours, with Delta having the shortest flight time. Fares, taken from airlines' websites, are for the first week of December</p>
Emirates Stops in: Dubai	British Airways Stops in: London Price: \$1,780 to	

Since he took over as chief executive officer in January 2011, Mr Goh Choon Phong has shifted the group's focus to the Asia-Pacific to take advantage of the region's growth. By 2020, China is expected to overtake the United States as the world's biggest aviation market with India in third spot.

To boost its Asia-Pacific presence, SIA launched its own budget carrier Scoot in June last year. It now flies to 13 points in Australia, China, Japan and other markets. SilkAir, the group's full-service regional arm, has also announced an order for up to 68 Boeing jets, which will start arriving next year.

Meanwhile, in India, SIA has tied up with Indian conglomerate Tata to set up a new airline in New Delhi. The market has strong long-term potential, although operating conditions there are tough, especially with the high taxes which have already pushed all but one Indian carrier into the red.

Mr Kapil Kaul, who heads the Centre for Asia Pacific Aviation's India office, still believes the tie-up will benefit not just SIA and its partners but Indian travellers as well.

SIA is also continuing to invest in new products in the air and on the ground to enhance the customer experience. It is now more convenient for frequent fliers to redeem their air miles, while a new website promising to be more user-friendly will be launched sometime next year.

But the question remains: Is SIA doing enough against the onslaught of Middle Eastern carriers like Emirates and Qatar Airways, which are spending billions on planes and expanding aggressively in new markets like Africa?

And there is the challenge posed by Hong Kong's flagship Cathay Pacific, which in August announced plans for a fifth daily flight between Hong Kong and New York next March. Assistant Professor Terence Fan from the Lee Kong Chian School of Business at Singapore Management University noted how Cathay continues to expand in the US even as SIA cuts capacity in that market.

The next few years will be critical for SIA. Will the investment in Scoot and SilkAir pay off? Will the India venture be a game-changer for the right reasons?

SIA needs the answers to be "yes" to keep flying high. Otherwise, the airline which many still regard as a great way to fly could end up being marginalised by rival carriers.

✉ karam@sph.com.sg