



Air wars in Asia: competitive and collaborative strategies and tactics in action

Competitive and collaborative strategies

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Keywords *Airlines, Asia Pacific, Strategic Business Club, Competitive strategy*

Abstract *It has been forecast that before the turn of the millennium air travel in Asia will account for 40 percent of global travel rising to 50 percent by 2010. The International Air Transport Association also forecast world international scheduled passenger numbers to grow by an average of 7.1 percent annually to 2000, to reach 522 million. Air wars over Asia are hotting up, with some of the world's biggest airlines engaged in intense competition over Asian skies – potentially the richest and most lucrative air travel market on Planet Earth, notwithstanding the 1997 currency turmoil. This article looks at how competition in the Asia Pacific air travel industry was played out in the 1990s. A glimpse of what is to come can be drawn from the several tough skirmishes seen thus far in the 1990s.*

Introduction

The essence of strategy formulation is coping with competition (Porter, 1979). With just about two years to go to the turn of the millennium, air wars over Asia are hotting up, with some of the world's biggest airlines engaged in intense competition over Asian skies – potentially the richest and most lucrative air travel market on Planet Earth, notwithstanding the 1997 currency turmoil. This research paper looks at how competition in the Asia Pacific air travel industry was played out in the 1990s. A glimpse of what is to come can be drawn from the several tough skirmishes seen thus far in the 1990s.

An overview of the Asia Pacific air travel industry

The Asia Pacific market was valued at US\$10 billion in 1996. Favourable forecasts for air travel in Asia have been made independently by two separate world aviation authorities in 1997. The International Civil Aviation Organisation in 1997 reckoned that air travel in Asia will grow at twice the world's rate of 5 percent, and before the turn of the millennium will account for 40 percent of global travel (*Straits Times*, 1998, p. 34). In 1994, Asia accounted for about 30 percent of the world's air travel. The International Air Transport Association, on the other hand, has forecast that, while the economies of the Asia Pacific will be similar in size to those of North America or Europe, Asia would account for half of the world's international air travel by 2010. IATA also forecast world international scheduled passenger numbers to grow by an average of 7.1 percent annually to 2000, to reach 522 million, with the most significant growth expected to be in North East and South East Asia (*Asian Business*, 1997, p. 22). Asia's economic growth and swelling middle-class will

help fuel the growth of the air travel industry relatively much faster than that in the USA or Europe. Unlike the situation in the USA or Europe, surface transportation, whether rail, road or sea, is not a viable mode of long distance travel in a sprawling and dispersed Asia. The Asian situation is not unlike the case of the importance of the airline as the primary mode of passenger transportation between the USA and foreign countries, with the virtual demise of the scheduled passenger ocean liner.

Since the 1970s, the competition for the Asian air travel market has always been intense. This became more intense in the 1990s as traffic volumes were squeezed. The annual growth rates in the 1970s and 1980s averaged about 11 percent and 12 percent, respectively. However, this slipped below 10 percent in the early 1990s. Although this growth rate was still high compared to US and international growth rates, the lower growth rate put pressure on Asia's main airlines and their international competitors in the Asia Pacific arena. The region is still by far the fastest growth market in the world, and there is continuing intense competition for it can only be expected as a consequence.

The slowdown in the 1990s began in 1990. The economic recession and the downturn in major world economies that began in 1990 were accentuated by the Gulf War in 1991 (Hanlon, 1996). A rapid post-Gulf War air travel recovery proved illusive as economic recession deepened and airlines had to grapple with a slow climb back to profitability. The economic recession in Japan was a major factor, as Japan accounted for nearly 60 percent of the international air traffic in Asia. Just as things were looking set to take off, Asia was hit by currency turmoil in 1997.

During the boom years, many of Asia's top airlines developed into major world players. They capitalised on Asian charm and hospitality in differentiating their service. Japan Airlines (JAL), All Nippon Airways (ANA), Cathay Pacific and Singapore Airlines (SIA) are today in the league of the world's top airlines. The region also has an impressive set of national airlines that each has more than US\$1 billion in annual revenues and extensive international route networks. These include Qantas, Air New Zealand, Thai International, Korean Air, China Airlines (of Taiwan), Malaysia Airlines and Garuda Indonesia. About 40 airlines founded by state-owned companies have also sprung up in the People's Republic of China alone.

The drop in traffic volume during and after the Gulf War, compounded in particular by the economic recession in Japan, hurt many Asian airlines. Hardest hit were the Japanese carriers. Revenues at ANA fell nearly 5 percent in the first half of the 1993/94 fiscal year, to about US\$3.8 billion, and earnings plunged by more than 80 percent to US\$12.7 million. In that same fiscal year, JAL lost about US\$234 million. Revenues dropped by about US\$200 million from the previous fiscal year to about US\$8.7 billion. Even the more profitable Asian airlines, such as Cathay Pacific and Singapore Airlines, saw their margins clipped from the 20 percent or so rates of previous years to about 12 percent (*Fortune*, 1994, p. 26).

Industry competition backdrop

Structure must follow strategy (Chandler, 1962). In the 1990s, US carriers were able to enjoy immense success in Asia. A key contributing factor was their well-established market entry structure in Asia, through air agreements concluded in the 1950s. Many Asian carriers, however, were very unhappy with what they considered to be unfair strategic competitive advantage from airlines based outside Asia, in particular, US giants like United Airlines and Northwest Airlines. Cathay Pacific was particularly strong against what it viewed as disparities in reciprocity in the air agreements between the USA and most nations in the region. It pointed out that USA carriers can fly into Asia from 21 US cities, while Asian airlines can depart for the USA from only nine cities in the region (*Fortune*, 1994, p. 26).

JAL, on its part, argued that air agreements between the USA and Japan, which date back to the early 1950s, must be re-negotiated as they no longer reflect market realities. About 40 years ago, two-thirds of the passenger traffic between the USA and Japan consisted of Americans. As a result, US carriers were given liberal landing rights in Japan. However, JAL pointed out that the percentages are now reversed, with Japanese accounting for the larger share (*Fortune*, 1994, p. 26). Nevertheless, Northwest Airlines and United Airlines still enjoy the same broad market access to the Japanese market. Of particular concern to Japanese carriers are the US “beyond” rights, which allow them more than 150 flights a week that stop in Tokyo or Osaka to drop off and pick up passengers, and then go on to destinations in the region like Hong Kong, Seoul, Singapore and Taipei. Under an existing 1952 air agreement signed by the two countries, “beyond” rights were given to United Airlines and Northwest Airlines. The USA, however, does not allow foreign airlines to pick up and drop off passengers in one US city and then fly on to another.

This situation had come about in a large part because of the fact that it was the USA which had opened up the markets several decades ago. The rationale for this disparity in reciprocity has long been predicated on the argument that there is an intrinsic difference between destinations within one sovereign country and those that transcend national boundaries. Increasingly, however, the main Asian airlines are now arguing for a more equitable basis of reciprocity and for the US air travel market to be seen as similar to their regional market. In operational terms, this would mean, for instance, that allowing an Asian airline to fly from New York to Los Angeles and then on to, say, Hong Kong is not unlike letting US carriers use Tokyo as a hub for the rest of the region.

Elsewhere in Asia, the general sentiment is also that a more equitable basis of reciprocity of air agreements with the USA must be established. This was not so in the agreements that the USA virtually forced upon many Asian governments in the 1950s; nor was this true of the 15-page specimen agreement that the USA presented in 1997 to Malaysia, New Zealand, Singapore, South Korea and Taiwan. Against these sustained US attempts to browbeat weaker competitors, Asian airlines have stood up and fought for their rights,

individually as well as in collective unity, as they seek to avoid the Japanese predicament. Even the Japanese are now fighting back. In spite of protracted talks, the USA still has not been able to come to an agreement with the Japanese (*Straits Times*, 1997a, p. 68).

The European Union, too, has also complained that, while the USA insists on fifth freedom rights which allow an airline to pick up passengers from one destination and fly them to the next point in European countries, it does not allow European carriers to do so in the USA. "Beyond" rights and cabotage, the industry term for the right to fly the domestic routes of other countries, are also points of contention. Finally, there is also the disagreement over ownership and control, with the USA demanding that the agreement between British Airways and American Airlines, for instance, be subject to its anti-trust laws for marketing alliances. In almost all the cases, the general sentiment is that the USA expects far more than it is prepared to concede. Though US Transportation Secretary Federico Pena argued with irrefutable logic that "the economic pie gets bigger when you open markets and compete", the affected parties at the other end inevitably pointed out that the biggest slice seemed to be reserved for the USA (*Straits Times*, 1997a, p. 68).

US carriers are not the only external airlines making inroads into the rich Asian market. British Airways, the leading carrier in the Europe-Asia market, and Lufthansa are also in it. However, they compete with the Asian airlines more or less on a more equal footing. It was United Airlines and Northwest Airlines, which had grown leaner and tougher during more than a decade of deregulation battles back in the USA, that have had the most success in Asia in the earlier 1990s. Northwest Airlines, a pioneer in the region with more than 50 years of operation in Asia, raked in US\$2.4 billion, about 30 percent of its US\$8 billion in annual revenues from its Asian operations in 1994. This has been expanding some 7 to 8 percent a year since. Northwest Airlines entered the Asian market soon after Pan Am had opened it up. United Airlines became an Asian powerhouse following its take-over of the collapsed Pan Am's Pacific division in 1986. It had added between 15 percent and 25 percent more capacity each year, tripling annual revenues from US\$1 billion to US\$3 billion by 1994.

Competitive tactics: better customer service, cost cutting and price slashing

Asian airlines responded to the competition by offering better service, capitalising and differentiating themselves on their Asian charm and hospitality in their service; undertaking several cost cutting measures; and slashing prices to stay competitive. In-flight service, amenities and meals, for instance, were improved. Computerised reservations systems were strengthened, and frequent flyer programmes launched. On costs, the US carriers had a clear comparative advantage. They were the industry cost leaders. Their labour costs, which were slightly more than 30 percent of overall fixed costs, were only about half those of their Asian competitors (*Fortune*, 1994, p. 26). As for the European airlines, a McKinsey study in 1993, estimated

that US airlines have a 28 percent labour productivity advantage over the former (*The Economist*, 1993, p. 18). Asian airlines generally had higher wage levels and employed more staff. This is in contrast to the US carriers, which, having to survive in the competitive deregulated US market, had long trimmed their staff and negotiated lower wages with the unions.

In 1994, JAL launched a downsizing exercise of its 22,000-strong workforce, with the aim of reducing this to 17,000 by 1998 through attrition. JAL also embarked on recruiting and hiring more cabin attendants outside Japan. In this way, costly expatriate housing benefits can be cut, as these new staff will be based in their respective home countries. ANA for its part has cut down on the number of graduates it recruits each year for its downsized corporate staff.

Cathay Pacific has outsourced and relocated some of its corporate and office functions to cheaper locations to save costs. For example, it moved its database centre to Sydney, saving about 99 percent on land costs alone, as the site in Sydney costs only about 1 percent of that for a similar plot of land in Hong Kong. It was, however, hit by a 12-day strike by its flight attendants in 1993, when it instituted measures aimed at boosting productivity. For the longer term, just as in the JAL's case, Cathay Pacific plans to cut its labour costs by basing its foreign pilots in their respective home countries to save on expatriate costs. Most of Cathay Pacific's expatriate pilots are UK and Australian nationals.

Singapore Airlines, on the other hand, focused its cost saving efforts at the business unit level. Business units, including those involved in aircraft maintenance, catering and security, for example, were run and managed as subsidiaries. Part of the rationale was that it would be easier to manage and control costs this way. This had in fact resulted in better cost savings and greater profitability for SIA (*Asian Business Review*, 1996, p. 34). Some of its database and processing functions were also, as in Cathay Pacific's case, outsourced and relocated out of expensive Singapore to very much cheaper Mumbai in India and Beijing in China.

Interestingly as far as wage and staff costs are concerned, SIA was an industry exception. SIA adopts a most rigorous quality control system and process for staff recruitment and selection, as well as rigorous training and service policy. In fact SIA has one flight attendant for every 22 seats, the highest in the world, which is well above the industry average (*Asian Business Review*, 1996, p. 34). Cabin crew are recruited young (must be under 26) and are employed on a five-year contract. Previously, all cabin crew would complete a six-month training course before they could be allowed to serve a customer. However, this has been compressed into an intensive four-month course, which is still reckoned to be the longest and most comprehensive programme of any major airline. In comparison, Cathay Pacific, for instance, conducts only a seven-week intensive training programme on technical, safety and interpersonal skills.

In the 1970s, SIA cabin attendants were paid an average of about S\$1,000 per month, a fraction of their counterparts from the developed countries. By

1997, the total cost of employing a cabin attendant has, however, risen to about S\$4,200 per month. This is higher than what most other world airlines pay (*Straits Times*, 1997b, p. 56). In 1997, SIA spent an average of S\$5,600 per employee per year on training. With a staff strength of about 28,000, this works out to be no small sum.

Airlines also resorted to price slashing in the 1990s to stay competitive. In 1994, for instance, prices fell by about 20 percent or more on some of the more popular and hotly contested routes. Service and quality standards were also raised to attract travellers. However, the collective price-cutting moves hurt the industry's yields (yield defined in the industry as revenue received per passenger-mile) and profitability as a whole. IATA in 1997 warned that such repeated price-slashing tactics will have a potentially devastating effect on the industry's future (*Business Times*, 1997, p. 18).

Expressing similar sentiments in 1997 was SIA's Chairman, S. Dhanabalan. When reiterating SIA's long-standing strategy to deal with such competition and tactics, he stated that: "Strong competition is not new to SIA. Every now and then, some airline, in an attempt to gain market share, will resort to senseless heavy discounting. It is a short-term phenomenon. We take such competition in our stride . . . If others resort to cutting fares, we can certainly do the same and we have a far better financial strength to cut fares and last longer than anyone else. But we ask ourselves first whether it is necessary to do that . . . So far, we have had no need to do so" (*Straits Times*, 1997b, p. 56).

IATA also warned that the industry needed urgently to protect its yields as well as continue to drive unit costs down. According to IATA's 1997 figures, collective net profits from international scheduled services fell from US\$5.2 billion in 1995 to US\$3 billion in 1996. Yields dropped six times as fast as unit costs – 2.5 percent against 0.4 percent (*Business Times*, 1997, p. 18). In response, IATA stressed the need for airlines and their marketeers to strike a realistic balance between yields and fares charged.

The emergence of collaborative strategies: development of new markets, air agreements and airline alliances

Hamel *et al.* noted the need to collaborate with one's competitors to win (Hamel *et al.*, 1989). The 1990s saw the emergence of many collaborative strategies and arrangements on the Asia Pacific air travel scene in the areas of development of new markets, air agreements and airline alliances.

In the airline industry, beside being profitable, good political and negotiation skills are required to open new markets, negotiate air agreements and develop airline alliances. The experience of Singapore and SIA is an interesting case in point.

Singapore Airlines is widely regarded as one of the industry leaders in development of new markets and airline alliances building. For SIA, growth comes primarily from adding new destinations to its existing network, and one of the major markets SIA is targeting is the USA.

SIA currently flies to San Francisco, Los Angeles and New York. It hopes to fly to Chicago, Dallas, Seattle and Washington DC within the next three to five years, with Chicago likely to be SIA's first new US destination, as it is a major international and US hub. SIA already operates a freighter service to Chicago, but for passenger services it only has a code-sharing agreement with American Airlines for that route. This means that Chicago-bound passengers flying with SIA can connect with American Airlines' flights in either San Francisco or Los Angeles.

The recently signed open-skies agreement with the USA will also offer growth opportunities for SIA in the longer term. SIA is now free to fly to any city in the USA, where previously it had been confined to ten. It can also fly from the USA to third-country destinations, like South America (fifth freedom rights). In addition, it can enter the USA from certain major hubs such as London, which were previously barred to it.

SIA's expansion into the US market, however, has not been fully realised because of the need to have bilateral air agreements with intermediate countries where it has to make refuelling stops. It has to make a stop in North Asia or Europe for US west coast and east coast destinations, respectively. SIA has therefore been pressing for more liberal bilateral air agreements between Singapore and these countries. SIA hopes that the extensive and growing number of liberal bilateral air agreements worldwide will eventually lead to a global multilateral agreement under the World Trade Organisation.

Another solution explored by SIA is to look for an aircraft that can fly non-stop to the USA. In the long term, this would present tremendous opportunities for SIA. SIA is now discussing with aircraft manufacturers Airbus Industries of Europe and Boeing of the USA the possibility of producing such an aircraft. For instance, SIA has expressed interest in the 200-seater B747-100X, which Boeing has shelved. But Boeing is already developing the larger Boeing 777-200X. If the aircraft is commercially produced, it would come into service some time after 2000. According to SIA, if such an order does go ahead it would not stop at one, as it is not economically viable to order a small fleet. The numbers involved for a new type of aircraft would be at least six to ten of each. SIA is also keen to buy a high-capacity 600-seater plane. Airbus plans to start developing its double-decker 550-seater A3XX in about two years.

SIA may well order both the high-capacity and the long-range planes, as they are not mutually exclusive. They serve different markets. The long-range aircraft is more for North America, whereas the high-capacity aircraft can be in Asia and Europe, and North America with one stop from Singapore.

Singapore Airlines has entered into many alliances, most notably the Global Excellence Alliance with Swissair and Delta Airlines in June 1995 "to find quality sources of products and services at a cost saving to the three airlines" (Singapore Airlines, 1996).

However, SIA's attempts at opening up new markets have also met with some difficulties. For instance, it was noted in the Annual Report Chairman's statement that "The (SIA) Group continued to spread its wings outside

Singapore and SIA added to its list of joint ventures in Asia, with the focus firmly set on airport services, in-flight catering and engineering services. Venturing into online operations in other countries has proved to be more difficult. Co-operation with the Tata Group to start up a new airline in India is mired in political manoeuvrings. Management (however) remains convinced of the rightness and the promise of the concept" (Singapore Airlines, 1996).

The "concept" in this case was a proposed 40 percent stake in a US\$700 million joint venture with one of India's largest conglomerates, the Tata Group, to set up a domestic private airline (*Aviation Week & Space Technology*, 1997, p. 24). In April 1997, India's United Front Government of then prime minister HD Deve Gowda had banned all "direct or indirect" investments by foreign airlines in private Indian carriers about one week before it faced its no-confidence vote. The decision meant that the Tata-SIA venture could not proceed and forced the withdrawal of existing foreign airline investments. The Indian Government said the measures were necessary to protect state-run carrier Indian Airlines from competition.

In September 1997, Philippines Airlines (PAL), Asia's first airline, and the Philippines Government both ruled out the possibility of an "open skies" agreement with Singapore, citing the Philippines as not ready to handle the increased competition it could spawn (*Straits Times*, 1997c, p. 70).

However, several successful agreements were made with like-minded governments and airlines in the Asia Pacific. The week before the Indian government's decision, Australia and Singapore announced an air services agreement designed to boost economic links between the two countries. The passenger and freight services deal is also expected to benefit Qantas and SIA, the only carriers from both countries operating the route. Australian Prime Minister John Howard noted that the deal will result in about 28 to 30 additional B747-sized aircraft flying from the two countries and a 100 percent increase in the freight capacity out of Australia into Singapore.

In 1997, Singapore successfully concluded open skies agreements with three countries. In April 1997, Singapore signed its first open skies agreement with the USA, for cargo, the first Asian country to do so. A month later, it signed an open skies agreement with Brunei. Then, in October 1997, all restrictions on air travel between Singapore and New Zealand were lifted when the two countries concluded an open skies agreement. The agreement was welcomed as timely by Singapore Airlines and Air New Zealand, which had recently entered into an alliance (*Straits Times*, 1997d, p. 60).

With the trend towards globalisation gathering momentum, the formation of airline alliances as a strategy to cope with competition has increased. Alliance strategy as part of every good strategist's repertoire, and when properly managed alliances are among the best means to bring strategy to bear in global markets, was noted by Ohmae (1991). Airline alliances are viewed by airlines as necessary and have become the fastest-growing area of competitive advantage since 1993 (*Asian Business*, 1997, p. 22). Many airline chiefs envisage a future of "white-tail" airlines, without distinct national brand identity (*Asian Business*,

1997, p. 22). These developments and trends, however, have made some countries and their airlines very uncomfortable. It is going into their turf and before anyone else gets in they want to make sure they have a firm grasp on their market share.

For the travellers and customers, alliances bring benefits of the ease of the transfer, ticketing and collaboration of flight schedulings. The Global Excellence Alliance of SIA, Swissair and Delta Airlines, for instance, has been marketed as “A seamless travel experience around the world with three excellent airlines.” For the operators, much more traffic as a consequence can be derived.

Alliances in the airline industry have, however, yet to develop fully like those in other industries, because many airlines are still government-owned and much of the trade in aviation services is still controlled by governments. SIA CEO, Dr Cheong Choon Kong lamented in 1997 that “for no rational reason, the aviation industry is not game to be like other industry”. He further pointed out that bilateral air agreements are made by governments, and this accounts for why the aviation industry is so different from any other industry.

British Airways (BA) is also well aware of the pitfalls alliances can have, even in rapidly deregulating regions such as Europe and the USA (*Asian Business Review*, 1996, p. 34). Its alliance with American Airlines, announced in June 1996, is still under investigation by EU and regulatory authorities in the UK and the USA. It was also subjected to the scrutiny of shareholders in the summer of 1997. Since the outset of its announcement of an alliance with American Airlines, BA had been saddled with protracted suits filed against it by its former partner, US Airways Group, Inc., over the legality of the proposed alliance with American Airlines. BA has since sold off its 24.6 percent shareholding in US Airways and ended an extensive operating alliance linking their networks.

BA Chairman Sir Colin Marshall noted in 1997 that, while the moves towards alliances and the removal of many of the market barriers through deregulation are well under way, he cautioned that some ups and downs can only be expected, particularly when moving into new territories.

BA is taking the alliance concept another step further into what is called franchising (Hanlon, 1996), particularly on the routes and in areas where BA cannot operate because they are not allowed to, such as in other countries outside Europe or on routes where there is the need to operate smaller aircraft. BA franchises other carriers to do it in its name. BA gets a franchise fee to pick up more intra- or inter-lining traffic and for the franchisee there is the benefit of BA’s marketing and distribution systems which deliver a lot more business to them than they could otherwise achieve.

Sir Marshall also noted that alliances have been difficult up to now because access has been too tightly controlled under bilateral air agreements which require airlines operating under an individual country’s certificate of party to be controlled by nationals of that country. In some cases, the airlines have remained under the control of government entities as well, which makes it difficult, although not impossible.

While BA has long hoped to find a strong partner in Asia to build on its global vision and reach, the airline does not have any plans to set up its own hub operation in Asia. It is, however, always looking out for new opportunities (*Asian Business*, 1997, p. 22).

BA has long wanted to fly to Ho Chi Minh City and Shanghai. However, both destinations have been denied by the rules and regulations. BA is hopeful that in due course it will be able to overcome the obstacles that are preventing it from flying to both places (*Asian Business*, 1997, p. 22).

Developing a strong “home” base strategic hub capability as part of competitive and collaborative strategy

A strategic hub capability boosts the strategic competitive position of an airline (Hanlon, 1996). International air travel has globally developed into the hub-and-spoke system. Such a system confers strategic competitive advantage to hubs (Prestowitz *et al.*, 1993). Therefore a strong strategic hub capability is of imperative importance. Airlines in possession of such strong strategic hub capabilities not only will have strategic competitive advantage, but also can leverage on their hub capabilities and present themselves as attractive partners in any collaborative arrangements with other airlines.

By virtue of their strategic locations and their current stature, Tokyo, Hong Kong and Singapore are potential aviation hubs that can dominate the air travel scene in Asia in the new millennium. Their potential, if and when fully exploited and realised, will boost the competitive advantage of the respective national airlines concerned. Whether this will happen in each of the three cases will depend to a large extent on whether the respective airlines and their governments succeed in taking the appropriate strategies in a co-ordinated and synergistic fashion.

Tokyo's Narita Airport suffers from severe congestion as well as traffic overload. It is today stretched to the limit in coping with the airport passenger traffic as well as the air traffic load it has to handle. Expansion of its airport capacity is therefore a logical consequence, not only on operational grounds but, more importantly, at least to the Japanese government policy makers and airlines, of giving Japanese airlines a stronger home base advantage, with more take-offs and landings slots at Narita Airport.

The current situation, however, is one in which US carriers alone are holding a relatively high number of slots, about 800 take-offs and landings a week at Narita Airport, almost the same as the 830 or so for Japanese airlines. Taking into account those of the other airlines, Japanese airlines in fact have fewer slots than foreign airlines, a situation described as “abnormal” by JAL (*Fortune*, 1994, p. 26). Instead of the US carriers having the lion share, JAL hopes that the situation can be corrected to one where Japanese airlines are those having more slots than foreign airlines.

However, although the need for expansion of Narita Airport was well recognised, the Japanese Government had not been successful in overcoming the efforts of militant environmental groups blocking the expansion of Narita

Airport. Finally, a new US\$14 billion airport on a man-made island near Osaka had to be built instead. This new airport will relieve some traffic off Narita Airport. As the US carriers in Japan already enjoy relatively overwhelming share in terms of slots, the benefits of the additional airport capacity will accrue to the Japanese as well as, in large part, to the other Asian airlines.

Kai Tak Airport in Hong Kong, another strategic Asian aviation hub, is just as congested and overloaded as Narita Airport. Expansion of airport capacity in Hong Kong was a logical and pressing necessity. The US\$21 billion project to expand airport capacity that included a new airport and connecting roads to be constructed was, however, hampered by squabbling over costs and bitter wrangling between the Chinese government and Hong Kong's UK overseers. As a result, Hong Kong's new airport, Chek Lap Kok could not be ready in time for the colony's return to the People's Republic of China in 1997. It is now scheduled to be completed by 1998 the earliest.

The long delay had affected Cathay Pacific, Hong Kong's leading carrier. Although the airline was still relatively profitable through the mid-1990s, Cathay Pacific was bristling over the market opportunities lost because of airport overcrowding. It lamented that "It's like we've been shackled for at least two years, unable to fulfil a lot of pent-up demand" (*Fortune*, 1994, p. 26).

Hong Kong's new airport had also attracted other controversies since its inception, including the issue of proposed landing fees. Airlines, including Cathay Pacific, had argued with the airport authorities over the proposed landing fees, which may well turn out to be more than double those charged at the existing Kai Tak Airport.

Strategically, from Hong Kong, one can reach half of the world's population within a four-hour flight. This fact is not lost on Cathay Pacific, and is best reflected by their excitement and optimism that "We really are all set to explode" (*Fortune*, 1994, p. 26).

Cathay Pacific's management was also politically sensitive to the airline's future status. A subsidiary of the Swire Group, a UK real estate conglomerate, Cathay Pacific has long been a very visible symbol of Hong Kong's colonial status. In the run-up to the 1997 hand-over of Hong Kong back to the People's Republic of China, Cathay Pacific responded both symbolically, by painting over the Union Jacks that have graced the tails of all Cathay Pacific planes, and substantially, by importing more locals into their management and granting state-owned Chinese companies a 22.5 percent equity stake in the airline.

These moves were but a very small price to pay for continued and greater access to the world's most prospective air travel markets. Booming Guangdong Province in Southern China, for example, is now a major manufacturing zone and alone will provide a heavy flow of air cargo and passengers. Air travel within the People's Republic of China is growing at a rate of 30 percent annually.

Cathay Pacific's management is banking on Cathay Pacific as a big beneficiary through its subsidiary, Dragon Air, which flies into China from

Hong Kong. Cathay Pacific is also well placed to reap big gains from the rapid economic growth and rising middle-class populations throughout Asia.

A similar strategic case can be made for Singapore, the final strategic aviation hub of Asia. It sits at the aviation crossroads of Asia. Millions of travellers from South Asia and South East Asia use the island-city on the tip of the Malay Peninsula as a gateway for trips to and from North East Asia, North America or Europe. Travellers from North East Asia funnel through this city-state *en route* to and from Australia or New Zealand. Australians and New Zealanders pass through it on their way to and from Europe or North America.

Changi Airport is home to Singapore Airlines. It is the world's best airport, judging by the number of awards it has consistently won year after year. Clean, cool and uncluttered even at its busiest, Singapore's Changi Airport stands in marked contrast to other airports in the region where crowds throng check-in and immigration counters; lounges are a heaving mass of humanity; and air-conditioning has all but given up the ghost. Most of Asia's industrialising economies have placed properties and cars before customer-friendly infrastructure. Now with their weakened currencies, stock markets and economies, many grand improvement plans will have to be deferred until their economies and businesses recover.

In 1997, for the sixth year running, Changi Airport was voted the best in the world by *Business Traveller – Asia Pacific*. As in all previous polls, it not only topped the overall rankings, but also made a clean sweep of all the six subcategories – quite an exceptional achievement. A summary of the rankings, including those of the two previous years, 1996 and 1995, for the three Asian strategic hubs of Singapore, Hong Kong and Tokyo is given in Table I, together with those of some of the world's best airports for strategic benchmarking purposes.

Changi Airport's supremacy looks set to be unchallenged for now and the foreseeable future. Only Hong Kong's Chep Lap Kok Airport, no longer some vast mudbath off the coast, but visibly an airport in the making, is capable of mounting any serious challenge. However, even before Chep Lap Kok Airport was completed and ready, the Singapore government and Changi Airport made a move in an attempt to stay further ahead. In 1997, the next-stage expansion plans for Changi Airport were announced. Plans for the new Terminal 3 had in fact been brought forward by a couple of years. With this, Changi Airport looks set to maintain and even further increase the competitive lead it has over the other airports. This strong strategic home base advantage will further boost the competitive advantage of SIA.

Synergy of strategies and the strategy of differentiation-based competition

The airline industry is an unique and complex industry. Besides the operators of airlines and airports, the key industry players also include governments. In this regard, Singapore provides an interesting case study. The Singapore government not only is an active negotiator for favourable air agreements and

1995	1996	1997	Airport	Convenience of layout	Duty free shopping	Ease of getting taxis or buses	Efficiency of customs/ baggage handling/ immigration	Look/image	Refreshments, food and drink
1	1	1	Singapore	1	1	1	1	1	1
26	24	20	Hong Kong	20	12	9	20	28	19
31	27	26	Tokyo – Narita	27	25	26	16	26	24
24	28	25	Bangkok	25	21	27	28	25	23
2	2	2	Amsterdam	2	3	2	2	3	2
4	4	4	Zurich	5	14	3	4	6	10
18	20	5	Vancouver	3	6	12	7	4	4
9	9	9		9	8	7	10	11	12
12	13	12		21	4	10	13	18	8
15	14	13	Sydney	11	23	18	14	16	14
27	25	23	London – Heathrow	26	27	25	23	23	16
			San Francisco						
			Los Angeles						

Source: *Business Traveller – Asia Pacific (1997a)*

Table I.
Rankings of world's
airports

arrangements with other countries, but also plays an important role in the development of Singapore Airlines and Singapore's Changi Airport, both arguably the world's best airline and airport, respectively. The Singapore government also watches with a keen eye management-labour relations in SIA and Changi Airport, and has played an important arbitration role in the past. This tripartite arrangement, involving government, management and labour, has distinct strategic competitive advantage and has resulted and helped boost Singapore's lead in the world of international aviation. This has led to an industry view that "Singapore's excellence in the world of international aviation is now so unquestioned that it has become an article of faith" (*Business Traveller – Asia Pacific*, 1997b, p. 3).

The synergy of co-ordinated and concerted airline, airport and governmental strategies and actions that one sees in Singapore's case, is not found, as we have seen earlier, in any of the other Asian cases. For European airlines, this is to a large extent also non-existent, although in the past, most of them could depend on regulatory help in the form of entry barriers to defend their dominant positions at their respective hubs. The US carriers, on the other hand, do enjoy a key strategic competitive advantage of having the US government's helping hand in the setting up and securing of highly favourable air agreement arrangements for them. As a consequence, in a largely undifferentiated world market that is dictated mainly by price and cost considerations, the US carriers generally fare well. Most Asian as well as European airlines compete on the basis of such an undifferentiated strategy, and as a consequence did not fare as well as their US competitors.

An exception was Singapore Airlines, which has operated largely on the basis of a highly differentiated service strategy. In the late 1980s, in the face of this competitive onslaught, it was, however, not altogether clear whether top quality service, the central pillar of SIA's highly differentiated strategy, would succeed in the deregulated environment of the future. The lesson learned in the context of the domestic US market after deregulation was that nearly all new carriers which had focused on premium service had failed. These included Air Atlanta, Pride and Regent. The airline industry in the USA was thus more a transportation or "commodity" industry than a service industry. In contrast, SIA, for instance, has always viewed the industry it competes in as a service industry, and has strategically positioned itself in the premium service, quality and value market segment, accordingly.

In the US market, the evidence points to the fact that, in a deregulated market, price and convenience were the factors considered most important by travellers, and that "brand loyalty" was just a function of frequent flyer programmes and benefits. Therefore, if the US domestic market experience were to be any indicator for a deregulated international market, passengers would also choose lower fares and indifferent service over higher fares and high quality service in the latter. The SIA experience, however, points to the fact that the international air travel market is not such a homogeneous market,

but that there are niches for premium or “brand” airlines, such as SIA. SIA has strategically positioned itself in such a niche market segment since its inception.

According to SIA Chairman S. Dhanabalan, SIA is gearing up for a new era of heightened competition where tailor-made in-flight service, for the increasingly demanding passenger, will be the norm (*Straits Times*, 1997b, p. 56). On SIA’s future direction and strategy to cope with the new competition, Dhanabalan noted that: “Basically, it has to be service, and better service. Others have learned that what differentiates one airline from another is service. They have wised up to it and have also starting improving their service. The challenge is therefore to keep ahead of the pack” (*Straits Times*, 1997b, p. 56). On how to keep ahead, Dhanabalan indicated that: “The crew will have to be equipped to meet the special needs of passengers. They would have to be . . . We are constantly reviewing procedures and training methods . . . so that when people fly, SIA will be the preferred airline” (*Straits Times*, 1997b, p. 56). This strategy has served SIA well, and has enabled it to withstand and overcome the competition posed even by domestic deregulation battle-hardened US airlines in the 1990s.

Conclusion

Prospects for greater air travel in Asia over the longer term are inevitable with the growth of the Asian economies and markets. The 1990s saw external airlines penetrating and reaping the lucrative Asian air travel market. US carriers, United Airlines and Northwest Airlines, in particular, enjoyed the most success. The major US and European airlines will no doubt seek to make further inroads into these growing markets.

Asian airlines meanwhile did not take the competition lying down. They rose to meet the challenge and defended their turf. Besides sharpening their own competitive tactics like offering better and differentiated customer service, enhanced productivity and lower costs, Asian airlines also stood up and fought for their rights, in what they considered to be unfair strategic competitive advantage from airlines based outside Asia, in particular, the US carriers. Through their individual positions as well as collective unity, which proved to be effective strategies, they avoided Japan’s predicament as they stood up to US pressure.

The 1990s also saw the emergence of many collaborative strategies and arrangements in the Asia Pacific air travel scene in the areas of development of new markets, air agreements and airline alliances. As a result, airline alliance strategies have become the fast-growing area of competitiveness since 1993. As the hub-and-spoke system of international air travel confers strategic competitive advantage to airlines with strong home base strategic hub capabilities, besides aircraft acquisition, appropriate and timely expansion of hub/airport capacity must also be undertaken to keep pace with airline market growth. Government initiatives and actions in the area of air agreements can also boost the strategic competitive advantage of national airlines, by way of securing favourable arrangements or access to new markets. In this regard,

Singapore is an interesting case in point. Its pre-eminence and lead in the world of international aviation is now well-established in large part because of the tripartite arrangements between government, airline and airport as well as between government, management and labour.

On the whole, airlines based in the Asia Pacific region are bullish about their prospects and have placed orders (over US\$40 billion worth in 1994) for new aircraft from Boeing and Airbus, to be delivered over the next few years. There have been several tough skirmishes thus far in the 1990s, with intense competition hotting up. The stage is now set for an air war over Asia to break out as we enter the new millennium.

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