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SCOOT: SINGAPORE AIRLINES' LOW-COST CARRIER STRATEGY

INTRODUCTION

In 2011, Goh Choon Phong, the newly appointed CEO of Singapore Airlines Limited (SIA Group), announced plans to set up a new low-cost carrier to diversify the company's portfolio. The SIA Group was the parent company of Singapore Airlines (SIA), the flag carrier of Singapore with a long-standing reputation as one of the premier full-service airlines in the world. While the market for budget airlines was growing rapidly in Asia, Goh's decision surprised many. Some observers, as well as a handful of leaders within SIA, were concerned that a low-cost carrier (LCC) would cannibalize the full-service business and damage the Singapore Airlines brand. Moreover, the common perception was that full-service airlines could not successfully run an LCC. Indeed, the best-known LCCs were independent start-ups, such as Southwest, Jet Blue, Ryanair, and EasyJet. The track record for full-service airlines launching LCCs, on the other hand, was terrible. United Airlines, Continental, and British Airways had all launched LCCs that folded or were sold within a few years.

By December 2019, SIA's low-cost entry, called Scoot, had successfully established itself in the Asian market, having flown over 65 million passengers to 68 destinations with a fleet of 48 aircraft. It accounted for 14 percent of seat capacity in Singapore, and 43 percent of LCC capacity out of the country. Scoot reported a loss of $15.4M SGD for the 2018 fiscal year following a profit of $77.7M the prior year, as the costs of expansion exceeded revenue growth and load factors fell marginally.[1] Goh estimated that Scoot's operating costs in 2019 were

[1] Singapore Airlines Annual Report, Fiscal Year 2018/19, https://www.singaporeair.com/saar5/pdf/Investor-Relations/Annual-Report/annualreport1819.pdf (November 14, 2019).

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around 40 percent lower than those of Singapore Airlines. "That is a huge number," he said.[2] After SIA fully acquired the local LCC Tigerair in 2016, Tigerair was integrated into Scoot which, at the time, was two years into an aggressive five-year expansion plan. That plan envisioned doubling Scoot's fleet to 70 aircraft and growing its network to over 80 destinations by 2020.[3]

Reflecting on Scoot's evolution, Goh felt that the SIA Group had succeeded in fulfilling its strategic intent of being invested and a market leader in both the full-service and low-cost markets. He also contemplated the opportunities and challenges ahead for SIA. Because Scoot operated many places where the full-service airline did not fly, Goh thought that SIA could gain tremendously by making connections between flights by Singapore Airlines, Scoot, and SilkAir—the airline's short-to-medium haul premium subsidiary—as seamless as possible. But there were challenges as well, since Scoot provided different service levels and had been established and run with a high level of autonomy. Goh explained, "There are different expectations between the full service and the LCC if there are any delays. But when you are connecting the two of them, how do you manage the expectations? These are all things that we are still learning. But we are determined, and we think it can be resolved. We are just right at the front of the learning curve."

SINGAPORE AIRLINES IN 2011

Singapore Airlines, often referred to by its call letters SQ, is based at Singapore's Changi Airport, one of the largest and busiest transportation hubs in Asia. In 2011, the SIA Group also owned SIA Cargo, SIA Engineering, SilkAir, and a minority stake in Tigerair.[4] SIA in turn was majority owned (55 percent) by Temasek Holdings (Private) Limited, a holding company owned by the Singapore government.

Based in a country only one-quarter the geographic size of Rhode Island, SIA had always focused on international routes, building a route network that spanned the globe with Changi Airport as the hub. In FY2010-2011, SIA flew 16.6 million passengers, (down 3.6 percent from the previous year) and brought in revenues of $14.5 billion SGD[5]. (See **Exhibit 1** for 2011 SIA financials and operating statistics.) The airline divided its routes into five regional areas to which it flew.[6] Flights to and from East Asia and the Americas grew passenger numbers by 140,000 and 64,000, respectively, from the previous year. Flights to and from Europe; Southwest Pacific; and West Asia and Africa had lower passenger numbers by up to 20,000. The parent company had 21,500 employees in 2011. SIA itself employed 14,000, of which about 2,000 were pilots and 7,000 were cabin crew. Employees were represented by five labor unions.

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[2] Case quotations are from authors' interviews with company executives conducted in 2019 unless otherwise noted.

[3] "Singapore LCCs: Scoot's fast growth, Jetstar Asia slows." *CAPA Centre for Aviation*, December 2, 2018, https://centreforaviation.com/analysis/reports/singapore-lccs-scoots-fast-growth-jetstar-asia-slows-449974 (November 14, 2019).

[4] SIA assumed majority control of Tigerair in 2014, and full control in 2016.

[5] 14.5 billion Singapore dollars (SGD or S$) equaled 10.6 billion U.S. dollars in October 2019.

[6] Each route region comprises routes originating from Singapore to final destinations in countries within the region concerned and vice versa.

SilkAir began flights in 1989 under the name Tradewinds, catering to passengers on holiday to exotic destinations in the region—and later adding regional business destinations. In 1992, it was renamed SilkAir and evolved from a holiday resort-focused airline to a full-fledged regional carrier. SilkAir was positioned as a premium, short-to-medium haul regional carrier. It grew its profits over 150 percent in FY2010-2011, and passenger numbers increased by 17 percent.

From its inception, Singapore Airlines had focused on excellence in customer service, safety, and reliability. SIA consistently ranked in lists of the top 20 safest airlines, receiving a safety rating of 7 out of 7 by an independent airlines rating organization.[7] In 2001, SIA was the first to introduce personal video on demand in all service classes, and was widely known for its excellent cabin service. (See **Exhibit 2** for first class cabin images.) Cabin crew members underwent "one of the longest and most strenuous training programs in the industry" where they mastered "social etiquette, food and wine knowledge, personal grooming, and luxury service techniques that will satisfy any type of passenger."[8] SIA was the first customer for new aircraft models such as the Airbus A380 and Boeing 787, and maintained one of the youngest fleets of any major airline. SIA summarized its commitment to quality in 2010-2011 in the annual report: "In everything we do, in all our activities, we single-mindedly seek to achieve the highest service standard for our customers."

SIA topped most lists of best airlines, with 2010 awards including "Best Overall Airline in the World" for 21 of the last 22 years[9]; "Airline with the Best First & Economy Class Service,"[10] and "Best Airline in the World 2010"[11] for the seventh consecutive year. The *Wall Street Journal Asia* named it the "Most Admired Singapore Company" for the 18th consecutive year."[12] SilkAir also received continual accolades for its dedication to product and service quality, including the "Best Regional Airline" award, which recognized the best players of the Asian-Pacific's travel industry.[13]

Industry Changes

Goh's decision to enter the low-cost segment was prompted by two major structural changes in the airline industry: (1) the increasing competition from premium full-service airlines from the Middle East, which were eating away at Singapore Airlines' market share, and (2) the high penetration of low-cost carriers in Asia. At the time, SIA's only presence in the budget segment was a minority stake in Tigerair, a short-haul low-cost carrier based in Singapore that operated independently of the company.

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[7] "Singapore Airlines," AirlineRatings, https://www.airlineratings.com/ratings/singapore-airlines/ (November 14, 2019).
[8] "Singapore Airlines' Cabin Crew Training Is Crazy Intense," *Travel and Leisure,* https://www.travelandleisure.com/partner/singapore-airlines/127073 (November 14, 2019).
[9] Business Traveler USA, 2010.
[10] Business Traveler USA, 2010.
[11] Global Traveler (USA).
[12] *The Wall Street Journal Asia,* Asia's 200 Most-Admired Companies 2010: *Most Admired Singapore Company.*
[13] SilkAir was voted 'Best Regional Airline' 10 times in 15 years in the annual TTG Travel Awards, which recognize the best players of Asia-Pacific's travel industry.

The rise of Persian Gulf airlines

In 2011, SIA faced growing competition in the premium, long-haul market, particularly from a new and rapidly growing set of carriers based in the Persian Gulf. Emirates, Qatar Airways, and Etihad Airways all grew aggressively in the late 1990s and 2000s, turning themselves into global airlines and emulating and even exceeding at times the Singapore Airlines model in terms of route structure and standards of service. (See **Exhibit 3** for a comparison of Singapore Airlines and Emirates.) All three airlines emphasized providing stellar services and unique features. Emirates, for example, offered complimentary limousine service to first- and business-class passengers in many cities starting in 2002, introduced Suites in first class in 2003, and offered showers in first class on the Airbus A380 starting in 2008.

The three airlines posed a particular threat to Singapore Airlines on long-haul routes, for example from Australia to Europe or India to the United States, because their airports in the Middle East were, like Changi, ideally located to serve as transcontinental hubs. For example, the direct flight distance from London to Melbourne, Australia was 16,904 kilometers.[14] The flight distance for the same route, via Singapore, was 17,176 kilometers and via Dubai, 17,589 kilometers. In addition, because most of Europe was within eight hours' flying time of their hubs, airlines based in the Middle East could use one plane to provide a daily connection to most cities in Europe. This allowed for operational efficiencies in serving routes between Europe and the Far East, as one analyst explained:

> … an airline based in the Far East would need six aeroplanes to provide four daily nonstop flights—linking four European cities with its home base. Another airline based in the Middle East can use these six aeroplanes to provide a daily service linking three European cities with its home base and a daily service linking another three cities in the Far East: providing a daily connection service to nine city pairs across Eurasia.[15]

Rival airlines claimed that these new competitors were heavily subsidized by their governments, something that the airlines and their governments strongly denied.[16]

Low-cost carriers (LCCs) in Asia

While SIA experienced accelerating competition from new full-service airlines through the 2000s, it simultaneously confronted the rapid growth of budget airlines in Asia. While low-cost carriers (LCCs) had first emerged in the United States in the 1970s, and in Europe in the 1980s,

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[14] No airlines flew direct at the time. Qantas flew the first direct flight between London and Australia (Perth) in March 2018, and announced 21-hour direct flights from Sydney and Melbourne to London in 2019. See Zona Black, "Qantas is planning direct flights from Sydney, Melbourne to New York and London – but here's the catch," *The New Daily,* May 1, 2019, https://thenewdaily.com.au/life/travel/2019/05/01/qantas-australia-london-new-york/ (November 14, 2019).

[15] Terence Ping Chin Fan, "Strategic Response from Singapore Airlines to the Rapid Expansion of Global, Full-Service Hub Carriers in the Middle East," *Advances in Airline Economics*, Volume 7, pp. 33-60, 2019.

[16] Shane McGinley, "Top Emirates exec slams gov't protection claims," *Arabian Business* May 12, 2010, https://web.archive.org/web/20100515145559/http://www.arabianbusiness.com/588041-top-emirates-exec-slams-govt-protection-claims (November 14, 2019).

they did not start making inroads in Asia until the early 2000s. (See **Appendix A** for a description of U.S. and European LCCs.) However, Asian LCCs quickly grabbed the largest market share of any region in the world. Led by Jetstar and AirAsia, Asian LCCs were growing rapidly in both number of passengers and geographies served. Singapore was a key connecting hub for Asian budget travel. In its Changi Airport, low-cost carrier annual passenger throughput went from zero to over 25 percent between 2004 and 2012.[17] (See **Exhibit 4** for global LCC penetration comparisons and LCC international capacity in Changi, Singapore Airport.)

The growth of LCCs in Asia was prompted by multiple factors. The region was seeing rising disposable incomes and a growing middle class with a taste for travel. The rapid rise of LCCs reflected pent-up demand for flying—at a cost that consumers could afford. In fact, AirAsia in Malaysia began with the slogan, "Now everybody can fly." This was especially true for intra-regional travel. LCCs were also attracting passengers to medium and long-haul destinations, which became more accessible and affordable. Australian tourism benefited greatly from Asian LCCs flying from Southeast Asia to Sydney or the Gold Coast for vacation travel.

Southeast Asia was particularly good for low-cost airlines because of its geography, which prevented trains and other forms of transportation from carrying passengers between many countries. Aviation infrastructure was improving rapidly, as existing airports in Asia were expanding, new ones were being built, and under-utilized airports were adding traffic. For instance, Changi Airport spent about S$1.75 billion to complete a new terminal in 2008. The terminal increased the airport's total capacity from 22 million passengers to 66 million passengers per year. In addition, regulatory changes made access to destinations less restrictive. The 10-country Association of South East Asian Nations had plans to establish a single aviation market with no new traffic restrictions by 2015.

By 2000, LCCs were a mature business model in the West, and Asian LCCs could study and learn from them. However, LCCs in Asia differed from those in United States and Europe in a few ways. Asian LCCs were looking beyond point-to-point travel toward hub-and-spoke models, while European and U.S. LCCs were mostly point-to-point, although some U.S. LCCs had transitioned to being hub airlines. U.S. and European LCCs reduced costs by having customers buy tickets direct from the airline (e.g., online), rather than through travel agents. Asian LCCs kept a significant amount of sales through travel agents, who were more important for distribution in Asian markets.

In 2011, SIA's presence in the low-cost segment was limited to a 34 percent stake in Tigerair, a short-haul LCC based in Singapore. (SIA defined short haul as up to 5 hours of flying time.) Founded as an independent airline in 2003, Tigerair flew to regional destinations in Southeast Asia, Bangladesh, China, and India. In 2010, Tigerair was struggling financially and had been the subject of several news reports on flight cancellations and stranded passengers, which damaged its reputation and stock price.

By contrast, SIA's low-cost Asian competitors were doing quite well and growing rapidly. AirAsia, a Malaysian-based low-cost carrier, launched in 1993. It was a money-losing venture

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[17] Yeoh Siew Hoon, "Low-cost carriers are changing Asia," *Travel Weekly,* July 17, 2016, https://www.travelweekly.com/Yeoh-Siew-Hoon/Low-cost-carriers-are-changing-Asia (November 14, 2019).

until 2001, when it had a turnaround and re-launched into a major Asian LCC player. AirAsia did not fly its own routes in Singapore and Australia, as SIA did, but it was highly competitive in the region and had affiliates in Indonesia and Thailand. AirAsia was the first Asian LCC to launch a medium-haul (up to about 8 hours) low-cost carrier. Jetstar Group, launched in 2004 by the Australian full-service airline Qantas, was a pan-Asian airline consisting of five airlines operating both short-haul and medium-haul routes. Each airline in Jetstar Group tailored their operations somewhat to their local markets, but Jetstar Group issued guidelines intended to ensure they operated with one brand and one customer experience.[18]

Asian LCCs started off with short-haul, narrow-body aircraft. But AirAsia and Jetstar were starting to procure widebody planes. Jetstar was adding medium-haul routes from Singapore, a direct threat to Singapore Airlines. AirAsia offered short-haul services from Singapore to Malaysia, Indonesia, and Thailand.

LAUNCHING SCOOT

By the time SIA decided to enter the low-cost segment, the company had been watching the low-cost market for 15 years but had not foreseen how quickly LCCs would gain a sizable presence in the market. LCCs substantially outpaced the growth rate of the more established full-service carriers. Goh saw this shift as a structural change that was not going to go away. He felt firmly that the company needed to take a decisive step to launch its own LCC and so SIA invested S$238 million to start one.[19] Goh appointed Singapore Airlines Executive Vice President of Human Resources and Operations Ng Chin Hwee as chairman of the new venture.

In February 2011, the company appointed Campbell Wilson as CEO to start planning and building the LCC with Ng, basically from scratch. When he became the CEO, Wilson had been with Singapore Airlines for 16 years. He had extensive experience in all aspects of marketing and had proven adaptable. But, having joined the company in his native New Zealand, he had spent very little time in the corporate head office. He said that when he was appointed to the project, he did not have many connections in Singapore Airlines' corporate office:

> I did not really have many people to ask questions of. And of anyone that I did ask, the only commonality was "You need to be different." But everyone's definition of "different" was different. So, it took a while for me to formulate my thoughts. But ultimately, I landed on the realization that I just need to do it the way I think it needs to be done, rather than taking too much guidance from other people.

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[18] Jetstar Group consisted of Jetstar Airways (based in Australia and New Zealand and fully owned by Qantas), Jetstar Asia Airways (based in Singapore and 51 percent owned by a local investor), Jetstar Pacific Airlines (based in Vietnam and majority owned by Vietnam Airlines), and Jetstar Japan (based in Japan and owned by Qantas, Japan Airlines, Mitsubishi Corporation, and Century Tokyo Leasing Corporation). Brian Sumers, "Jetstar CEO Interview: Running the World's Most Unique Low-Cost Carrier," Skift*,* September 21, 2016, https://skift.com/2016/09/21/ceo-interview-running-jetstar-group-the-worlds-most-unique-low-cost-carrier/ (November 14, 2019).

[19] "Scoot to take off by middle of next year," *TODAY,* November 2, 2011 (April 30, 2019).

Goh was very clear that the LLC was to have a different model and management than SIA, but otherwise delegated the design of the new airline to Ng and Wilson. Wilson recounted that he was given only two things to start the planning of the low-cost carrier:

> There was a spreadsheet with a pro-forma business case, which had been used to get Singapore Airlines' approval for the project. And there were two PowerPoint slides, one of which essentially said, "It's going to be a leisure-focused airline targeting the young, the young at heart, and the cost-conscious." And then another slide with a list of potential names for the airline, names like Singapore Express and Fresh Air.

Wilson felt that choosing a direction as an LCC was cleaner and clearer than as a premium airline like Singapore Airlines, which had to constantly think about being on the leading edge of passenger amenities. At a premium carrier, Wilson explained, the staff "were always trying to invent the next differentiating thing, even if it did not directly affect the bottom line, to establish a halo effect whereby everything in aggregate supports the margin they can command. Whereas low-cost carriers make decisions about what services to provide based on whether each specific initiative has a direct contribution to the bottom line."

In 2011 Lee Lik Hsin (who later took on the role of CEO at Scoot), was Singapore Airlines' senior vice president of corporate planning[20] and part of a team of senior executives at head office who helped to set up the new carrier. He agreed that the low-cost model was "not rocket science" since it was a question of relentlessly focusing on reducing unit costs. "But," he added, "it boils down to whether or not the organization that you build and the people that you hire are able to do this successfully."

One of Wilson's first decisions was choosing a name for the LCC. He did not want a name that was a derivative of the word Singapore; he wanted it to reinforce that it was a different airline than its parent. He said the name Scoot was chosen with the help of an online thesaurus and a bottle of red wine:

> I wanted something short and sharp that could be used as a noun or a verb and had connotations of travel—no "airlines" or "airways"—and something that was geographically independent to allow for future flexibility. Something congruent with a fun and youthful culture. In the Australasian usage, scoot is a pretty lighthearted and jovial word, and about as far away from Singapore Airlines, and its formality, as you could get.

Wilson admitted that when he proposed the name Scoot, many in SIA disliked it. However, after many discussions, no one could come up with anything better: "So Choon Phong sat me down and said, 'What name best describes the company that you see this being?' And I said, 'Scoot.' And he says, 'Okay. Go ahead.'" SIA announced the name Scoot publicly in November 2011.

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[20] Lee Lik Hsin became CEO of Scoot in 2016 after having served as CEO of Tigerair following its acquisition by SIA.

Wilson started with a core team of five people who came from SIA, covering flight operations engineering, safety, and security. From there he began building up the staff and designing the organization. Scoot's leadership designed a flat hierarchy to enhance employee empowerment. Ng noted that because Scoot had the benefit of coming in with a clean slate, "We made it clear that the structure must be very flat. We wanted things to be done quickly, and we wanted employees to be empowered to do what we needed to do." Employees called Wilson by his first name and, by design, there were no offices. From the leadership on down, Scoot set the intention to create an environment that promoted openness and give employees a voice to provide input, which in turn could help improve the organization.

As soon as Wilson became CEO of Scoot, Ng recounted, "one of the first things we did was to tell him to park himself as far away as possible from the head office" in a terminal at Changi where SIA did not operate. This was not viewed as a punishment. Wilson understood what it signaled: he had the autonomy, he had to be low-cost, and he had to be different. All employees were crammed together very tightly in the Scoot open space office, and people could hear each other making phone calls next to each other. Initially, some employees felt very uncomfortable with that arrangement. Ng says that over time they began to like it: "So in a sense we borrowed the kind of start-up mentality that already prevailed, where everyone huddles together. There are no walls. The only difference for Campbell was that he had a bigger desk." Having an open working space was one way to create openness and encourage employees to speak up.

Scoot's deliberate strategy for many roles was to not pick employees from SIA. Wilson explained: "If you are going to be different, you need to have people with different thinking, and you can't get different thinking necessarily by populating everyone from the parent." He said that Flight Operations, safety, and maintenance operation roles were filled with transfers from SIA to ensure the same high standards. But for everything customer facing, Wilson recruited people who had non-SIA airline experience. Scoot put a stake in the ground right away to hire externally for the head of HR position. Wilson said "I wanted to ensure we had a young, professionally trained HR person new to the airline industry, who could bring fresh, original, and professional HR thinking. And that was critical to helping build a culture that was different from SIA." The heads of Commercial, Ground Services, and Cabin Crew were specifically chosen from people who had experience with other low-cost airlines. Some of them had experience with Singapore Airlines early in their careers—so they could understand SIA's way of doing business, and also knew that it was not the only way. Over time he also recruited an engineering crew with a similar job history profile.

Scootitude

Very early on, Wilson pondered the challenge of responding to the hypothetical media question "How would Scoot be different from rivals AirAsia and Jetstar?" After all, Scoot would offer low fares, just as other LCCs already did, and would fly to many of the same destinations as those airlines, with the same type of planes. He seized on a casual remark he'd heard whereby another company's culture had been described using the suffix "-itude," realizing that "Scootitude" would serve as both the answer to what made Scoot different as well as an internal Pole Star to align the organization behind. "We would be the only one with Scootitude." After all, he noted, "No other airline could own that because it is our brand." He added wryly, "Also, nobody knew exactly what it meant."

Wilson then took the founding team, which by then numbered around 25, to an offsite retreat to define the fledgling company's mission, values and culture, anchored on Scootitude. Wilson recalled:

> The team fleshed out what Scootitude was, attaching adjectives like quirky, honesty, and fun—which turned into key elements of the culture. The team then began exploring how employees in every role would exhibit Scootitude. How would pilots make announcements that exhibit Scootitude? How would an employment contract exhibit Scootitude? What would Scootitude look like on advertisements, or be manifest in cabin crew service?

Ng explained why Scootitude was so important for marketing and attracting customers: "It was not enough just to be called low-cost. We were afraid that if we were to join the ranks of AirAsia and Jetstar, and just declare ourselves as another low-cost carrier, we would not stand out among the crowd. That is why we decided that we needed to have some personality." With that personality defined, Scoot chose the color yellow to represent it because yellow is bright and loud. (**See Exhibit 5** for Scoot plane and crew image.)

Many of Scoot's passengers were leisure customers, which Wilson said matched well with Scootitude:

> We don't have the time, or the desire, to spend so long training our staff that they are so rigid and rote. One of the benefits of dealing with the leisure customer is that if you don't have to train your staff that much, as long as your staff are friendly and engaging, people appreciate the personal quirkiness or individualistic nature. That is why we have used the term Scootitude, to give it not only an external positioning but an internal positioning to everyone in the company to define what it means to them and how to display it.
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> The expectation of some form of comfort or some form of service is very much Asian and certainly expected in this part of the world. You can't deny people that and frankly it is a cliché, but it is true that a smile is free.[21]

Ng noted it was all part of the image Scoot wanted to demonstrate to set it apart from the rest: "The youthful, devil may care kind of attitude." This included relaxed rules of appearance and behavior for the Scoot cabin crew compared to SIA's full-service flights. Lee gave these examples: "On SIA's full-service flights, female flight attendants are required to wear their hair back in a tight bun. On Scoot, flight attendants with long hair are still required to wear their hair back, but the hair did not have to be in a bun. Similarly, SIA flight attendants were required to wear a specific color of nail polish, whereas on Scoot, they could wear any color they wanted."

[21] Jordan Chong, "Scoot Boss Says Staff Define Scootitude," *Australian Aviation*, August 19, 2014, https://australianaviation.com.au/2014/08/scoot-boss-says-staff-define-scootitude/ (November 14, 2019).

Scoot subsequently trained its employees in Scootitude, which was most noticeable onboard flights. Flight attendants dressed up in costumes for Halloween and ran dance competitions. They also interacted with passengers more than attendants on a traditional airline would. For instance, the crew might nominate a young child to be an honorary flight attendant, who then sold food and beverages (quite a lot of them, it often turned out.) Wilson bolstered this culture by engaging in these types of behaviors himself. For instance, whenever he was on a Scoot flight, he wore a bright yellow polo shirt, and would serve the passengers and join the crew in dances. Wilson said flight attendants saw Scootitude as a fun opportunity to do these types of activities, rather than as a mandate from the top. So, they began to enjoy taking on Scootitude—and finding ways to expand it.

However, Ng stressed, Scoot had a second, sober culture, at the back of the house: the company made no compromises on safety and security. Scoot set out from the beginning to have these two distinct cultures.

Scoot emphasized discipline in rewarding the right people. It started with hiring people who were fully in agreement with the core values. Lee said that Scoot spent time describing to existing employees the core values, how to carry them out, and how they should surface in all the daily activities. "But you can't train the core values," he added, which is why hiring the right people was so critical. The core values were built into the performance assessment. If employees were achieving their quantitative key performance indicators (KPIs) but were clearly misaligned with some of the core values, Scoot would take that into account in reviews and goal setting. Those misalignments could impact future opportunities for employees at Scoot.

We really mean "Low-cost!"

New employees arriving at Scoot might have been surprised by how far the organization went to instill the message of low-cost and "no frills" in its internal operations. Scoot did not provide laptops for its employees. In fact, it did not even provide stationery or pens. Employees had to bring their own paper and pens. Ng contributed the first pen to the team by giving them his own pen. He said because Scoot had to recruit crew quickly, it conducted many interviews in hotels: "You find all the hotel stationery disappearing after the interviews. And when employees went to conferences, other participants left stationery behind. Guess where all that stationery ended up?"

Scoot did its utmost to emphasize to customers the carrier's low-cost approach. When Singapore Airlines first announced the Scoot brand, Wilson emphasized that fares would be 40 percent lower than typical full-service carriers. He said the immediate reaction in the mainstream and social media was: "Great, now we have Singapore Airlines but 40 percent cheaper." He recalled:

> And that frightened me a bit because it really showed me that we needed to demonstrate that we were not going to be Singapore Airlines. The last thing I wanted was for people to get on board expecting Singapore Airlines and be grossly disappointed because it was clearly not going to be. And vice versa because people needed to understand why Singapore Airlines was worth the premium.

> And sometimes you just have to explain. When you have an operational disruption and people are complaining on social media saying, "Why aren't you putting me in a hotel room and why aren't you rerouting me on other airlines?" I literally wrote these posts on Facebook and other social media sites, "We are a low-cost carrier. We have said from the beginning that in return for saving 40 percent of the airfare, we do expect you to take a little bit of responsibility for yourself, such as buying insurance for the 1 in 100 chance you will be delayed three hours.[22]

In one early incident, at a time when Scoot only had four Boeing 777 airplanes, a technical problem grounded one plane. To avoid stranding a full plane's worth of passengers, Scoot chartered a replacement 777 from SIA. While the plane had the full range of SIA amenities, Scoot chose not to turn on the plane's entertainment system—lest Scoot customers get an incorrect perception that the airline normally offered these types of services.

Cabin Crew

The roles of Scoot cabin crew were defined clearly and employees were empowered to make any required tweaks. Empowerment was a core value of the company. Lee explained:

> We try our best to put as much decision-making authority as possible into the hands of all colleagues. Occasionally, this could result in less than desirable outcomes when people don't make the best judgement call. But it is a balance you must strike, and you must take some risks. If you want an empowering environment, you must accept that sometimes things may go wrong. The only area where this does not apply is operational safety, where things are very structured.

As a young company with an accelerated growth plan, Scoot offered opportunities for its employees to explore different tracks within the organization. For example, several cabin crew and corporate staff went through the company's Cadet Pilot Program, after which some took cockpit roles.

Pilots

When Scoot started recruiting for pilots, Wilson found little interest from SIA pilots, who indicated that they were happy at SIA and/or they did not see a future with Scoot. That meant that Scoot initially populated its pilot ranks mainly with those from other airlines, including some from outside the country who were grateful to come to Singapore because of the high quality of life and work opportunity. As a greenfield organization, Scoot could structure the

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[22] In September 2017, Scoot announced that the airline would accommodate customers inconvenienced by disruptions when it could. Scoot saw the practice as a means of further differentiating the airline from competitors. See: Jack Board, "'Bad old days' of budget airlines are gone: Scoot CEO," *CNA Business,* September 30, 2017, https://www.channelnewsasia.com/news/business/bad-old-days-of-budget-airlines-are-gone-scoot-ceo-9231228 (December 20, 2019).

remuneration of pilots on regulatory requirements rather than more restrictive legacy practices. And because its pilots tended to be younger and keen to maximize their flying hours in order to accelerate their careers, productivity was higher.

Ng and Wilson emphasized that all Scoot pilots had to meet the same technical standards and skill-based criteria as pilots for SIA. As Scoot began to mature, it started hiring surplus pilots and first officers who volunteered to switch over from SIA. Ng said that benefited both organizations and, over time, SIA employees could see that Scoot was helping the entire company rather than seeing it as a divisive tool.

Flight attendants

The safety role of Scoot flight attendants was identical to those at SIA, and they had the same training and certification. However, there were fewer flight attendants on Scoot planes, which were staffed to the regulatory minimum: the number of doors plus one. By contrast, SIA staffed to whatever level was necessary to provide the quality of service it promised to deliver, including free meals, free-flowing drinks, and assistance with baggage on the flight.

The recruitment of Scoot flight attendants differed from SIA. The Singapore Airlines icon recognized around the world was the "Singapore Girl," a female flight attendant who represented the epitome of Asian beauty, hospitality, and grace, and SIA implemented stringent recruitment and training requirements for flight attendants.[23] Female flight attendants wore uniforms based on traditional *sarong kebayas*. The colors of their uniforms indicated which of four ranks they held; for male flight attendants, the same colors in their ties indicated their rank. Some Scoot flight attendants had, like many Singaporeans, aspired to work for SIA, but were not hired because they did not match the Singapore Girl profile, said Wilson. He explained, "Scoot presented an opportunity for them to be flight attendants, which otherwise they would not have had." Wilson described these flight attendants as "exceptionally good on a social and service aspect, just in a different style than SIA, which had a very formal style. Scoot recruits based on personality."

Scoot had plenty of candidates from Singapore. It hired flight attendants who had previously worked at SIA or SilkAir and wanted to return to flying, but could not work there anymore, or chose not to. For instance, this could be a flight attendant who might no longer want to serve on long-haul flights. Ng said the flight attendants with prior SIA experience were fantastic employees "because they came with the excellent service ethics of Singapore Airlines. They also knew what they didn't like about the formality of Singapore Airlines' culture or the consequences of being such a large organization. And so, they were genuinely enthusiastic to help create something that was different but good in its own way."

Scoot flight attendants also had to manage customers' expectations about the level of service on the flight, which was often lower than what customers were expecting. Passengers theoretically

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[23] Critics of the "Singapore Girl" had long said the term and the airline's use of it in its marketing was sexist and outdated, reinforcing inaccurate stereotypes of subservient Asian women. See for example, Philip Shenon, "The Last Stewardess," *The New York Times,* October 25, 1992, https://www.nytimes.com/1992/10/25/style/out-there-singapore-the-last-stewardess.html (November 14, 2019).

knew they were boarding a low-cost airline, but they often did not understand what that meant, and they were unpleasantly surprised. This was especially problematic in Scoot's early days, but it remained a recurring problem. Most Scoot customers bought their tickets directly online, whereas many full-service flight passengers bought them through a travel agency—which Wilson described as a "shock absorber." So, for Scoot customers, boarding the plane could be the first time they found out what the "no frills" idea of a low-cost airline really meant. This difference was especially acute for Scoot customers who had previously flown a Singapore Airlines full-service flight; the level of service on Scoot did not compare favorably.

Scoot flight attendants received a commission for selling food, drinks, seat upgrades, toys, and duty-free items on board—and for delivering ancillaries that passengers bought before they boarded. (Many LCCs charged fees for ancillary offerings such as checked bags, meals, drinks, and additional legroom. The industry average for ancillary offerings was 20 percent of revenue.[24]) This crew pay structure as a mix of fixed and variable components intended to motivate performance and was quite common for LCCs.

Filling the Planes

Scoot put as many seats as possible on its planes, and chose routes and pricing strategies to fill them. Initially, the airline operated four twin-aisle retrofitted Boeing 777-200 aircraft, purchased from SIA. Each plane had 402 seats, of which about 370 were in economy, and 32 to 40 were premium seats. By contrast, for similar planes, SIA had 266 to 323 seats, depending on the specific model of plane. Scoot removed from the planes two tons of entertainment systems and unnecessary galley equipment to lighten each jet. In lieu of the entertainment system, Scoot rented iPads to passengers. Finally, Scoot kept planes in the air through frequent flights and reliable operations. Ninety-eight percent of flights departed within 15 minutes of the scheduled time, compared with about 89 percent for SIA flights. Scoot's average daily utilization rate was about 15 hours a day, and SIA's was 13.8 hours a day.

Most LCCs used narrow body aircraft and flew short hauls. Scoot took a different approach—choosing widebody aircraft and largely focusing on the medium haul, with some long-haul routes. Goh said medium- and long-haul routes presented a different order of magnitude of complexity. Typically, LCCs with narrow body airplanes operated a same-day turnaround; they used the same crew to fly to a destination and then return. Widebody and medium- or long-haul flights involved more passengers and often involved a stopover because the crew would need to rest and rotate out to a new crew. Thus, scheduling of crew and aircraft was much more complex.

Ng and Wilson prioritized routes that SIA could not serve profitably, given the amount and nature of demand on those routes—for example, secondary cities in China that were highly populated but not the most visited cities by business travelers. These locations had potential for LCC traffic and were not served by SIA. (See **Exhibit 6** for the SIA group's 12 destinations in China in 2012.) In Australia, where SIA had several profitable routes, Scoot had a different strategy. Scoot would fly these routes because a number of low-cost carriers were already

[24] "Flying High, Scoot to Spread Low-Cost Love," *The Australian,* December 14, 2012 (April 30, 2019).

operating there or else were starting up operations. However, Scoot timed its flights to minimize competition with SIA. Ng and Wilson envisioned that Scoot would tap into a different passenger base on these routes. (See **Exhibit 7** for Scoot's initial routes.)

Even though Scoot would target routes that did not compete directly with SIA, there was still apprehension in the parent company that it could cannibalize the full-service carrier's traffic, rather than achieving its goal to grow the market. Ng said that, from the start, he and Wilson were quite careful about that. He noted, "I was mindful that if we were to come in head-on to challenge SIA, it would not be a good start. I was very conscious that my job was not just to start something good, but also to start something good without detracting from the parent."

He believed the LCC would not cannibalize SIA routes:

> We were not after the same traffic. We were after the same passenger, but not for the same flight. What we were doing was increasing the share of our wallet of every single passenger. Passengers make different decisions for different trips. Some of them are going on vacation, where they wouldn't mind just saving on the air fare and having that money to spend on shopping or other things. They wouldn't mind going on a low-cost carrier. When on business travel, people prefer to fly on business class, whether on Singapore Airlines or another airline. So, as an LCC, we were trying to get a higher share of the passenger's wallet.

THE RELATIONSHIP BETWEEN SCOOT AND SIA

The question of whether to start a low-cost carrier had been long and hotly debated at SIA. And after the decision was made, many people at SIA remained unconvinced that it was a good move. Goh said a big challenge then was the mindset change:

> We have been phenomenally successful in establishing ourselves as the foremost full-service carrier with the reputation of having a market-leading product, including the quality of service, the amenities, the food, and everything else. In fact, our success has been credited to our focus on the core business model of running a full-service carrier, and that was the exact right focus for the decades we have been prospering. So, even within the organization, it is not surprising that people will be asking whether we should be running an LCC given the heritage that we have. It is a fair question, and one that everybody should be asking.

Wilson added that from an individual employee basis, "There were certainly some in the organization who were nervous about what it would mean for them and their careers—and what it would mean for the size and growth of Singapore Airlines, which led to a lot of pushback from parts of the organization."

Once the decision had been made, SIA deliberately delayed talking publicly about its LCC plans as top executives focused on internal communication, until they were confident that they had enough internal buy in. A series of town halls and communication sessions helped explain to the staff why the leadership was setting up an LCC, and gain buy-in. To coincide with the public announcement, Goh sent an email to all staff to explain the rationale for the establishment of the new airline. (See **Exhibit 8** for Goh's email.)

At the outset, Scoot's leaders knew they needed to nail down the business model and then show it worked. But that took some time. There were many moments when SIA could have shut down Scoot if it was not seeing enough success from the low-cost carrier. Ng explained his thinking at the time. "My idea was if I can prove to SIA that this model works, maybe any type of resistance from Singapore Airlines could come down, and it would therefore see Scoot's operations and networks as complementary to its offering." Scoot also knew that because it was a separate legal entity, SIA could change its mind at any point about how much autonomy it was granted. That made it even more important that Scoot prove that the business model worked.

Wilson said SIA gave him a remarkable level of autonomy that allowed him to make some mistakes—which he admits he did. Wilson added, "It would've only taken a few things in those early stages for people at SIA to get sufficiently nervous and jump in. So, we were very fortunate. Equally, they were also very disciplined."

Goh set up and chaired a group-level committee that provided high-level guidance to SIA's entire portfolio, while leaving operational issues to the respective managements. This committee included the CEOs of SIA, Scoot, and SilkAir; key members of Goh's management staff; and corporate planning division leaders. The committee, which met a few times a month in the early days of Scoot, oversaw two key areas: 1) the overall network plan for the entire group, and 2) the fleet plan.

The network plan was developed to optimize the network at the group level overall—while also providing for growth and profitability for SIA, SilkAir, and Scoot. The route structure was coordinated and negotiated within that committee. Goh said the committee would sometimes transfer routes from SIA to Scoot because Scoot's model was better suited for it:

> In some cases, as soon as we transfer the route, it becomes profitable for Scoot because it is the right model and price point for the market. In other cases, Scoot may start the operations. But over time, if a city becomes more affluent, we have the flexibility to move it back to a full-service model.
>
> SIA and Scoot serve very different customers, and we have this portfolio whereby we can, in a nimble and flexible manner, deploy the right vehicle on the right route, depending on the demand pattern and traffic profile.

Ng recalled:

> Over time, it became clearer that Scoot could be a great partner alongside SIA, and the two could synergize the traffic flow. It explains why we eventually said, "For long-haul routes, Scoot should focus on points where we don't necessarily have to compete with SIA." We knew there are strong markets that didn't have the traffic that would pay for the kind of product SIA offered, and so those were better served by Scoot."

As the committee made decisions about the fleet plan, it sought to optimize the purchasing power of the Group since it could create much better deals as a whole than as individual operators. Second, SIA was an experienced negotiator and had good relationships with the OEMs, and so it wanted to leverage that expertise so the entire group could benefit from it. For its part, Scoot would not have been able to get financing at the lower rate it did without the backing of SIA.

Six months after Scoot's first flight, SIA announced that it would transfer 20 Boeing 787 Dreamliners worth more than US$4 billion in its order book to the low-cost subsidiary. Among the most technically advanced planes in the world, the 787s were 20 percent more fuel-efficient than other widebody aircraft. By the end of 2019, Scoot was operating 20 Boeing 787s and gearing up to take more deliveries of the aircraft. Investing in the latest generation Boeing aircraft was a clear differentiating factor for a low-cost carrier. With this, Scoot could also announce Wi-Fi across all the aircraft, which was relatively new.

Scoot was set up with a high level of autonomy, but there were still many shared resources. An early important decision was what Scoot would take from SIA: operational excellence, safety, and security. This arrangement provided many benefits to Scoot. Customers could worry about the safety and operational excellence of a new airline. With this arrangement, they could be assured that the safety standards would be the same as with SIA, a well-established airline. Scoot could talk to current and potential customers about having a shared culture of safety and operational excellence. So, although Scoot was not Singapore Airlines, Wilson said, "people could trust us perhaps more than they might trust another fresh start-up."

Ng was mindful of not passing operational safety capabilities responsibility on to Scoot. Because of that orientation, much of the backroom work was done by the SIA team. "Scoot is still ultimately responsible for the safety and security because it is the air operating certificate holder. But at least Scoot knows there are SIA resources it can call on to support and help it."

Other back office processes were decided on a case-by-case basis. For these, Scoot would try to determine market alternatives, and decide whether to make or buy. Ng said that in the early days, Scoot paid for some services from SIA that it later realized it had overpaid for. Wilson explained this was simply because SIA did not know what the market price was because these had always been internal costs. However, Wilson noted, SIA also deliberately charged well above market rates in an instance where Scoot chartered a Singapore Airlines aircraft to operate a relief flight. SIA did not want to encourage Scoot to do that again.

With that context in mind, Wilson procured services from SIA only if they were as cheap or demonstrably better than an alternative. He saw clear benefits to ride on the group's economy of scale for some things: fuel procurement, procurement of insurance, tax services. But for reservation systems, IT systems, and mail systems, he went totally outside the SIA ecosystem: He wanted everything to be cloud-hosted and free of legacy technology.

Scoot owned its own HR and Finance functions. Owning HR enabled it to do the hiring, salaries, bonuses, and performance reviews in the way that best served its needs. SIA largely did not constrain Scoot's ability to set terms of employee contracts, promotions, and salaries. Scoot's

Finance team shared a few services with SIA, including fuel procurement, insurance, and some funding and treasury activities. Besides those, Scoot's finance team operated on a relatively autonomous basis.

Scoot benefited heavily by having Ng as the first chairman as he was also SIA's EVP of HR and operations. As such, Ng was able to get his SIA teams to support the setup of Scoot. Wilson explained, "he was also able to give a bit of a nudge to the operating and engineering sides of the businesses to accord us perhaps a level of attention that we might not have otherwise got, and certainly to mitigate the concern or antagonism that existed in parts of the SIA organization that this new start-up might be a threat."

Ng said that with the tension and concern about antagonism coming from some parts of the organization, Goh was a stabilizing force: "Our CEO was clear that we needed to build this portfolio airline. He needed to make it work, and he was there to moderate the tension between SIA and Scoot." Ng added that as Scoot grew and established itself, the tension dissipated. "Things are much better now. For both parties, there's a lot more communication. There's a lot more coordination as compared to the past." He added, "there is this recognition now that we are not after the same traffic. We are after the same passenger but not for the same flight."

LOOKING AHEAD

Reflecting on the changes at SIA during his tenure, Goh noted that the company's portfolio strategy was coming into focus. (See **Exhibits 9 and 10** for 2019 financial and operational statistics.) SIA could now compete for price-sensitive leisure travelers on short- and medium-haul routes, particularly within Asia, and premium passengers on medium- and long-haul routes. With the growth of Scoot and the integration of Tigerair, SIA had a strong presence in the budget segment with both short- and medium-haul routes. Scoot was essential to building network connectivity within Asia and allowing SIA to compete effectively with competitors entering the market. Furthermore, with the availability of new products that allowed narrow-body planes to meet SIA's standards of quality and comfort, SilkAir would be fully integrated into SIA. "We are simplifying our model by reducing from three to two brands," Goh said. SIA planned to grow its ultra-long-haul routes (longer than 12 hours), such as the 19-hour flight from Singapore to New York City. At the same time, Scoot was launching more long-haul routes of its own from Singapore, such as to Athens and Berlin. (See **Exhibit 11** for SIA's network in 2019.)

Goh noted that the Scoot experience for customers was not comparable to economy class on SIA. SIA's economy class was consistently voted as one of the best in the world; the food and entertainment was totally different and much better:

> Scoot and SIA are positioned at the opposite ends of the spectrum. We are not somewhere in between. It is a very clear market segmentation. Some full-service airlines seem to treat the back of the plane [the economy section] like a low-cost carrier and the front as premium. We are not going that way. SIA's economy class passengers continue to enjoy all the same amenities that are consistent with our product and service standards.

In 2017, the two airlines announced a code-share agreement for those destinations that the airlines did not both serve. Scoot, for example, flew to over 30 destinations that SIA did not operate to. The agreement would allow passengers on each airline to travel on a single-ticket itinerary (rather than purchase separate tickets) and have their baggage checked through to their destination. Moreover, SIA passengers would be offered a checked baggage allowance and complimentary meals and blanket—all amenities that Scoot passengers paid extra for. Qantas and Jetstar had a similar codeshare agreement, although it covered all flights the airlines operated, including those on common routes.

Not everyone was impressed by SIA's efforts to drive traffic between the different airlines. One industry observer thought SIA had not gone far enough, noting, "Network synergies can be better exploited with a codeshare product…. SIA/SilkAir and Scoot will inevitably need to expand their codeshare to include overlapping destinations in order to maximize connectivity. Limiting the codeshare to exclusive Scoot destinations indicates an unwillingness to fully embrace the multi-brand model."[25]

Other observers were highly skeptical of attempts to increase connectivity between SIA and Scoot:

> The problem here is that Singapore Airlines is a hub-and-spoke airline that runs most flights through its Singapore hub. It's that connecting hub that causes the problem here, just as it [was] for United with its Ted effort. With United, people were pretty mad when they bought a First Class ticket from Europe to Vegas and found themselves stuck in coach on Ted for the last 4+ hours from Dulles.
>
> Singapore is going to run into the same problem here, assuming that Scoot isn't creating a new Scoot premium product that would go against the whole point of the airline so far.[26]

Goh viewed this as the central challenge facing SIA's portfolio strategy: "How do we do this connectivity between LCC and full service, while at the same time preserving the model and not allowing it to be diluted? That is something we're very conscious about, and that is the reason why I say that we are still learning. We are taking those steps, but we are watching carefully to make sure it doesn't go that way."

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[25] "Singapore Airlines Group follows Qantas in implementing LCC-FSC codeshares." *The Blue Swan Daily.* January 5, 2018, https://blueswandaily.com/singapore-airlines-group-follows-qantas-in-implementing-lcc-fsc-codeshares/ (November 14, 2019).

[26] "Shades of TED: Singapore Airlines Pushes SilkAir Routes to Scoot," *Cranky Flier,* November 29, 2018, https://crankyflier.com/2018/11/29/shades-of-ted-singapore-airlines-pushes-SilkAir-routes-to-scoot/ (November 14, 2019).

Appendix A: Low-Cost Carriers

LCCs in the United States and Europe

Southwest Airlines
A start-up low-cost carrier, Southwest Airlines first flew in 1971 with routes connecting Houston, San Antonio, and Dallas.[27] Southwest Airlines succeeded through low-costs, low fares, frequent flights, and a rapid expansion into new cities. In 2011, it was the largest LCC in the world and the third-largest airline in North America by number of passengers carried. It had lower overall costs than its traditional rivals, although it had the best-paid pilots, mechanics, and flight attendants in the industry. One former major airline president and chairman explained, "Southwest had a very profound impact on the industry. They disproved the notion that customers preferred service to low prices. And to their credit, they have sustained that."[28]

Ryanair
In 1984, Irish budget airline Ryanair was founded and flew its first route from Waterford, Ireland to London Gatwick. The deregulation of the airline industry in Europe in 1997 enabled Ryanair to expand rapidly across Europe while following a tight low-cost model. In 2011, it was the fourth-largest airline in the world by passengers carried, and the largest in Europe. Most employees were contracted by various agencies to fly on Ryanair. The airline had been continuously criticized for its treatment of employees. Summarizing the list of complaints employees made about the conditions at Ryanair in the mid- to late-2010s, the International Transport Workers' Federation said, "The range of issues highlighted including poverty pay, draconian disciplinary procedures, unachievable sales targets and staff having to pay for items that most decent employers provide."[29] Customers expressed unhappiness with the airline's heavy use of extra charges, and the brand's poor customer service landed Ryanair at the bottom of customer service ratings. In 2013, Ryanair's director of customer service cheerfully admitted, "we're the airline everyone loves to hate."[30]

EasyJet
The British low-cost carrier EasyJet was founded in 1995 and based in London Luton Airport, which until then was almost exclusively used for charter flights. EasyJet emulated Southwest's model of low fares and had the no-frills philosophy that if it reduced the ticket price, it would attract people who otherwise would not have flown. In 1997, a management article described it this way: "the bright orange, brash, cheap Luton-based upstart."[31] Sir Stelios Haji-Ioannou

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[27] Mad Mouawad, "Pushing 40, Southwest Is Still Playing the Rebel," *The New York Times,* November 20, 2010, https://www.nytimes.com/2010/11/21/business/21south.html (November 14, 2019).
[28] Ibid.
[29] Simon Calder, "Ryanair Cabin Crew Call for 'Fair Living Wage' in 34-Point List of Demands," *Independent,* July 4, 2018, https://www.independent.co.uk/travel/news-and-advice/ryanair-cabin-crew-charter-complaints-demands-action-strike-fair-living-wage-a8431021.html (November 14, 2019).
[30] Charles Miller, "Ryanair and Easyjet: The history of the peanut airlines," *BBC,* June 20, 2013, https://www.bbc.com/news/business-22888304 (November 14, 2019).
[31] Rhymer Rigby, "UK: Cheap and Cheerful," *Management Today,* August 1, 2010, https://www.managementtoday.co.uk/uk-cheap-cheerful/article/410853 (November 14, 2019).

founded EasyJet while in his late 20s and had never worked in an airline. He said in retrospect that he was lucky in that regard, "I did not know what I was doing."[32] He took some risks and curtained costs by getting customers to book directly through the airline's call center, which cut out travel agents' fees. This set EasyJet up for the advent of the Internet because it was ready to take direct bookings online.[33]

JetBlue

Low-cost carrier JetBlue began operations in 2000 flying from New York's John F. Kennedy International Airport to Buffalo and Fort Lauderdale. JetBlue began by emulating Southwest's low-cost and low fares strategy. However, as it gained more passengers, it added amenities that were not found on Southwest and other LCCs, which were considered "no frills" airlines. These amenities included live in-flight TV, free and unlimited snacks, and comfortable legroom. This combination enabled JetBlue to compete effectively with other LCCs because these amenities were attractive, but the fares were still low. JetBlue could also compete with major carriers because it had attractive services that could woo passengers over with low fares. In 2011, it was the sixth-largest airline in the North America by passengers carried.

Large airlines venture into LCCs

Several large airlines launched LCCs, but these efforts failed. In 1993, Continental launched a low-cost carrier "Continental Lite," which folded two years later with a loss of $140 million.[34] Because Continental was a full-service airline, it could not reduce costs the way Southwest, for example, could. British Airways launched "Go" in 1998, which remained part of British Airways for only three years. United Airlines launched its version called "Ted" in 2004, which lasted five years. With the demise of Ted, which sold stuffed animals with the airline's name, industry analysts said, "the popular industry strategy of developing an 'airline within an airline' has been retired again, at least for now."[35]

[32] Miller, op. cit.
[33] Miller, op. cit.
[34] See: https://en.wikipedia.org/wiki/Continental_Lite (November 14, 2019).
[35] Micheline Maynard, "More Cuts as United Grounds Its Low-Cost Carrier," *The New York Times,* June 5, 2008, https://www.nytimes.com/2008/06/05/business/05air.html (November 14, 2019).

Exhibit 1
Singapore Airlines Group Financial and Operating Statistics 2006-2011

	2010-11	2009-10	2008-09	2007-08	2006-07
Financial results ($SGD million)					
Total Revenue	14,525	12,707	15,996	15,973	14,494
Total expenditure	13,254	12,644	15,093	13,848	13,180
Operating profit	1,271	63	904	2,125	1,314
Profit before taxation	1,419	286	1,199	2,547	2,285
Operating Statistics					
Passengers carried (000)	16,647	16,480	18,293	19,120	18,346
Revenue passenger-km (million)	84,801	82,883	90,128	91,485	89,149
Available seat-km (million)	108,060	105,673	117,789	113,919	112,544
Passenger load factor (%)	78.5	78.4	76.5	80.3	79.2
Passenger yield (cents/pkm)	11.9	10.4	12.5	12.1	10.9
Passenger unit cost (cents/ask)	8.9	8.6	9.2	8.4	7.9
Passenger breakeven load factor (%)	74.8	82.7	73.6	69.4	72.5

Revenue passenger-km = Number of passengers carried x distance flown (in km)
Available seat-km = Number of available seats x distance flown (in km)
Passenger load factor = Revenue passenger-km expressed as a percentage of available seat-km
Passenger yield = Passenger revenue from scheduled services divided by revenue passenger-km
Passenger unit cost = Operating expenditure (less bellyhold revenue from SIA Cargo) divided by available seat-km
Passenger breakeven load factor = Passenger unit cost expressed as a percentage of passenger yield. This is the theoretical load factor at which passenger revenue equates to the operating expenditure (less bellyhold revenue from SIA Cargo)

Source: Singapore Airlines.

Exhibit 2
Singapore Airlines First Class Seats Images 2011

Source: Singapore Airlines annual report 2010-2011.

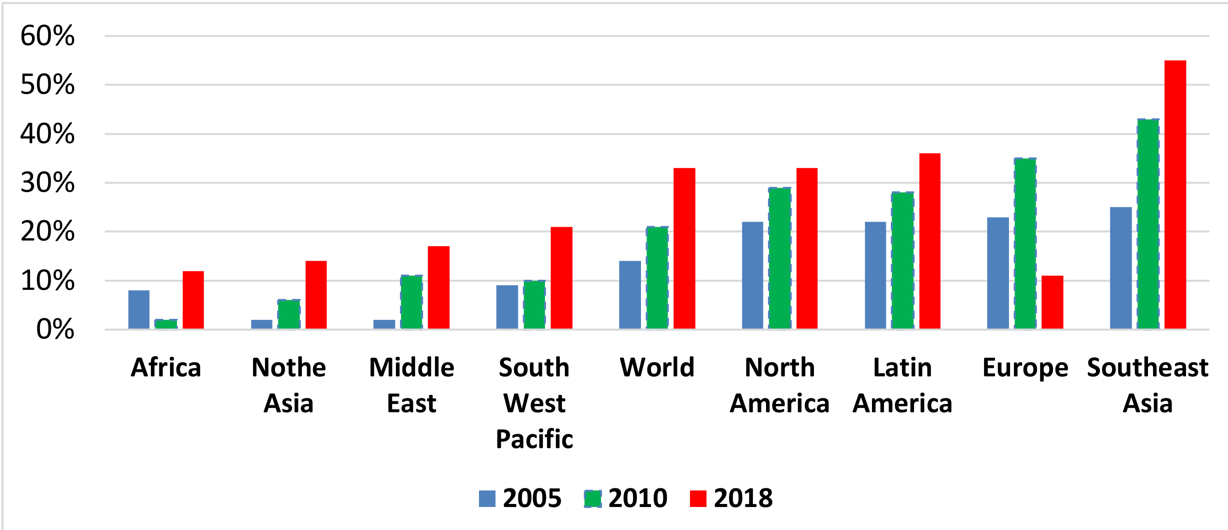
Exhibit 3
Comparison of Singapore Airlines and Emirates, 2002-2011

	Passengers (000)		Destinations	
FY Ending	**SIA**	**Emirates**	**SIA**	**Emirates**
2002	14,765	6,765	64	57
2003	15,326	8,503	60	64
2004	13,278	10,441	56	73
2005	15,944	12,529	59	76
2006	16,995	14,498	62	83
2007	18,346	17,544	64	89
2008	19,120	21,229	65	99
2009	18,293	22,731	66	99
2010	16,480	27,454	68	102
2011	16,647	31,422	64	111

	Breakeven Load Factor		Load Factor	
FY Ending	**SIA**	**Emirates**	**SIA**	**Emirates**
2002	71.1	65.1	74.0	74.3
2003	73.6	65.4	74.5	76.6
2004	72.8	59.0	73.3	73.4
2005	69.3	58.0	74.1	74.6
2006	70.8	60.2	75.6	75.9
2007	72.5	59.9	79.2	76.2
2008	69.4	64.1	80.3	79.8
2009	73.6	64.1	76.5	75.8
2010	82.7	64.4	78.4	78.1
2011	74.8	65.0	78.5	80.0

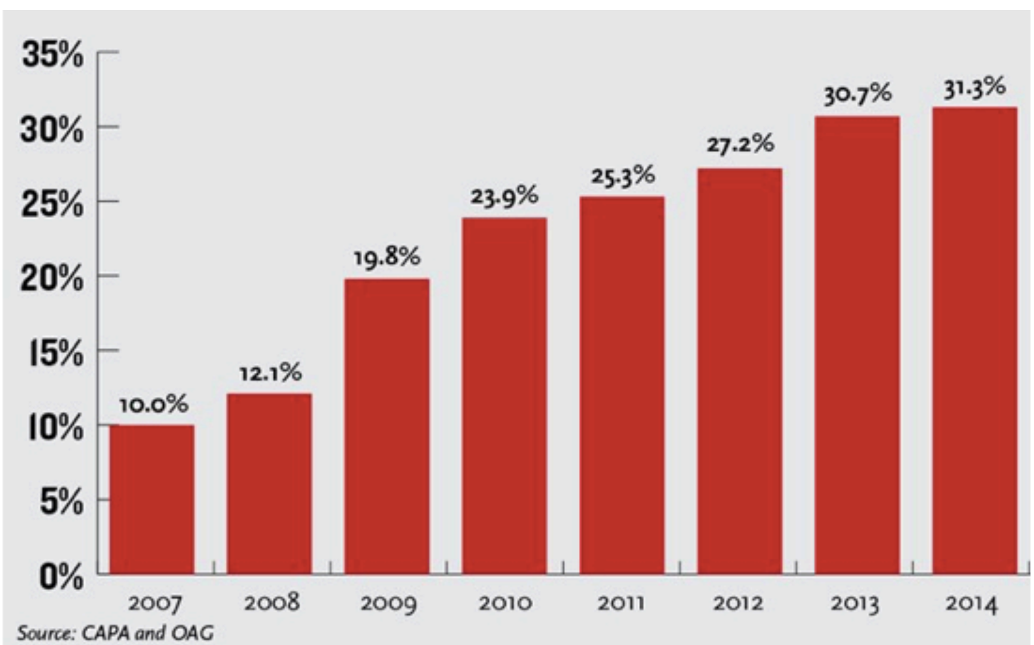
Source: Compiled by authors from company reports.

Exhibit 4
LCC Global Proliferation
LCC Capacity Share (%) of Total Seats



Source: Singapore Airlines.

Low-Cost Carrier Capacity in Changi (Airport), Singapore



Source: CAPA and OAG.

Exhibit 5
Scoot Plane and Crew Image

Source: Singapore Airlines annual report 2010-2011.

Exhibit 6
The SIA Group's 12 Destinations in China
Served by SIA, SilkAir, SIA Cargo, Scoot in 2012

1. Beijing (SIA)
2. Guangzhou (SIA)
3. Shanghai (SIA)
4. Chongqing (SilkAir, SIA Cargo)
5. Chengdu (SilkAir)
6. Changsha (SilkAir)
7. Wuhan (SilkAir)
8. Kunming (SilkAir)
9. Shenzhen (SilkAir)
10. Xiamen (SIA Cargo, SilkAir)
11. Nanjing (SIA Cargo)
12. **Tianjin (Scoot)**

Source: Singapore Airlines.

Exhibit 7
Scoot Initial Launches through December 2013

Country	City	IATA	Commencement Date
Australia	Sydney	SYD	4-Jun-12
Australia	Gold Coast	OOL	12-Jun-12
Thailand	Bangkok	DMK	5-Jul-12
China	Tianjin	TSN	23-Aug-12
Taiwan, China	Taipei	TPE	18-Sep-12
Japan	Tokyo	NRT	29-Oct-12
China	Shenyang	SHE	11-Jan-13
China	Qingdao	TAO	11-Jan-13
China	Nanjing	NKG	3-Jun-13
South Korea	Seoul	ICN	12-Jun-13
Hong Kong SAR, China	Hong Kong	HKG	15-Nov-13
Australia	Perth	PER	12-Dec-13

Source: Singapore Airlines.

Exhibit 8
Email from CEO Goh to SIA employees

----- Original Message -----
From: Employee Communications
Sent: 25/05/2011 05:09 PM ZE8
Subject: Message from SIA CEO

Dear Colleagues,

This evening we are announcing to SGX and to the media that we will be establishing a new airline to be headquartered in Singapore. It will operate wide-body aircraft on medium and long-haul routes, following a no-frills, low-fare model. Operations are expected to begin within one year.

The decision to establish a new airline was taken following extensive review and study. It will enable us to serve a largely untapped new market and cater to the growing demand among consumers for low-fare travel. Just as low-fare airlines have helped stimulate demand for travel on short-haul routes within Asia, we expect this will also prove true for longer flights by increasing the affordability of travel to consumers. With the new airline, SIA Group will have an additional engine of growth.

A CEO will be appointed from within SIA and an announcement will be made in the coming weeks. However, the new airline will be operated independently and managed separately from SIA.

I would like to make absolutely clear that we remain fully committed to the further growth of SIA, which will continue to offer the highest-quality products and services to our customers, and SilkAir, which will continue to expand as our regional wing. We will continue to invest in the three pillars of our brand promise: service excellence, product innovation and network connectivity.

More details will be announced by the new airline's management team in due course, including its branding, products and services, and route network. In the meantime, I hope you are as excited as I am about the opportunities for growth that the new airline will provide for the SIA Group.

Yours sincerely,

Goh Choon Phong
Chief Executive Officer

Source: Singapore Airlines.

Exhibit 9
Singapore Airlines Group Financial Statistics 2014-2019, $SGD million

	2018-19	**2017-18**	**2016-17**	**2015-16**	**2014-15**
Total revenue	16,323	15,806	14,869	15,239	15,566
Total expenditure	15,256	14,257	14,246	14,558	15,156
Operating profit	1,067	1,549	623	681	409
Profit before taxation	869	1,593	519	972	443
Scoot Profit	(15)	78	67	28	(67)

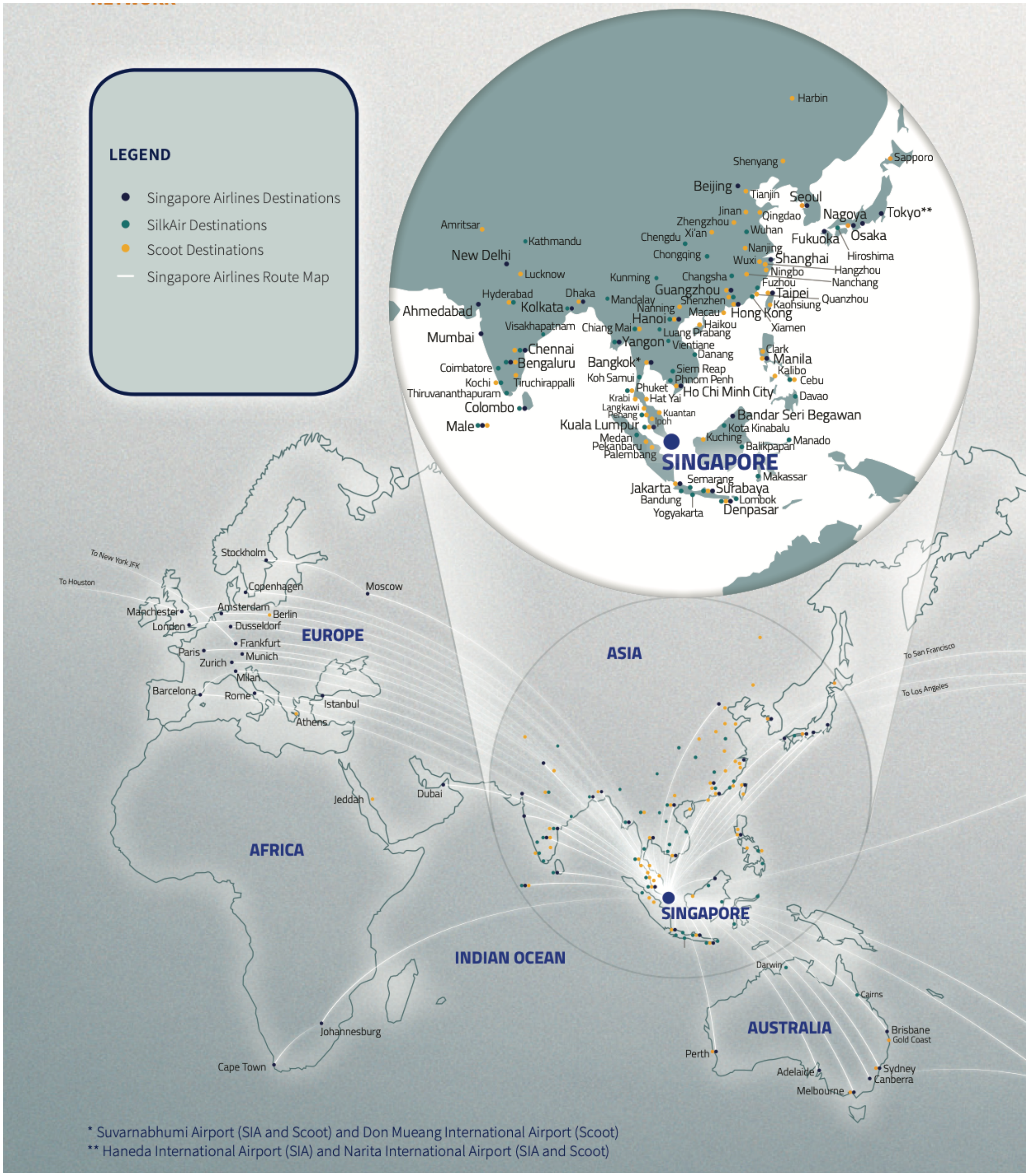
Source: Singapore Airlines and Singapore Airlines Annual Report FY2018-19.

Exhibit 10
Singapore Airlines Group Operating Statistics 2014-2019
Portfolio Passenger Airlines

	2018-19	2017-18	2016-17	2015-16	2014-15
Singapore Airlines (SIA)					
Passengers carried (000)	20,738	19,505	18,990	19,029	18,737
Revenue passenger-km (million)	102,572	95,855	92,914	94,267	94,209
Available seat-km (million)	123,486	118,127	117,662	118,367	120,001
Passenger load factor (%)	83.1	81.1	79	79.6	78.5
Passenger yield (cents/pkm)	10.1	10.2	10.3	10.6	11.2
Passenger unit cost (cents/ask)	8.3	8.1	8.3	8.5	8.9
Passenger breakeven load factor (%)	82.2	79.4	80.6	80.2	79.5
SilkAir					
Passengers carried (000)	4,902	4,687	4,106	3,836	3,553
Revenue passenger-km (million)	8,940	8,344	7,138	6,516	5,865
Available seat-km (million)	11,732	11,366	10,086	9,118	8,355
Passenger load factor (%)	76.2	73.4	70.8	71.5	70.2
Passenger yield (cents/pkm)	10.9	11.5	13	13.5	13.9
Passenger unit cost (cents/ask)	8.5	8.4	8.6	9	9.7
Passenger breakeven load factor (%)	78.0	73.0	66.2	66.7	69.8
Scoot					
Passengers carried (000)	10,455	9,467	8,503	7,540	7,018
Revenue passenger-km (million)	29,326	25,600	22,084	18,225	16,415
Available seat-km (million)	34,389	29,888	26,793	21,733	19,983
Passenger load factor (%)	85.3	85.7	82.4	83.9	82.1
Passenger yield (cents/pkm)	5.7	5.8	5.9	6.3	6.3
Passenger unit cost (cents/ask)	5.2	4.9	4.8	5.3	5.9
Passenger breakeven load factor (%)	91.2	84.5	81.4	84.1	93.7

Source: Singapore Airlines Annual Report FY2018/19.

Exhibit 11:
Singapore Airlines Network



Source: Singapore Airlines Annual Report FY2018/19.