

British airways: swot and porter's five analysis

[Environment](#), [Air](#)



Before establishing an analysis of the financial performance of British Airways, and stating the main reasons as to why this organization has been chosen as the proposed case study of this report, the most predominant issue at hand is to define 'financial' and 'business' performance. It performance of a certain organization stands for a measure, which shows how a company can efficiently use its assets from primary mode of business to produce revenues and returns. It can also be considered as a measure of the overall financial performance of the firm over a specific given period or a scale to make comparison of two or more firms in a single industry. Researcher will provide a detailed account of significance of financial performance, but before that, a brief summary of BA as a leading airline company of UK is necessary to explain.

British Airways is the flag carrier airline of United Kingdom and it was first established in 1971 in Waterside. The airline was initially formed to control the two nationalized airlines already operating in UK, i. e. BOAC, and BEA, as well as two other regional airlines operating within the country, Cambrian Airways, and Northeast Airlines. All these four airlines were then liquefied to form British Airways which had much larger infrastructure than any individual company and had high prospective earnings. In the recent times, British Airways provide air transport services as well as deliver cargo shipments in to more than 90 countries all around the world.

Reason for choosing the organization:

There are plenty of reasons as to why this particular organization has been chosen as subject case study. As we know the ongoing economic recession, and this has folded the developed countries into a web of economic decline.

The rise of oil prices from \$48 to \$110 per barrel since the last 6 years is also a reason for the deepest economic downturn for transporting companies. BA faces a challenge of a permanent shift in the business travelling where the larger organization do not prefer their employees to travel for short trips by paying high premium prices. The financial access that was readily available few years ago is now declining and less finance is readily accessible and cash level is decreasing All three challenges force us to make up an analysis that would reveal the financial performance of British Airways over the three years period, i. e. 2007 - 2009.

The review of the financial performance of any particular company that is facing a financial crisis would be the best approach to determine the factors and develop a clear understanding as to why the financial crisis is being faced by that company. A number of factors can be counted towards explaining the problem. Researcher has chosen the financial performance as the main indicator for developing a clear understanding of the financial crisis BA is facing. The financial performance over a specific three years period would also assist the researcher in making up the prediction concerning the future prospects, which would be based on the recognition of significant variables affecting the organization as well as its financial performance. The next two sections would be based on discussion of aims, objectives, and research questions raised by the researcher.

Research Aim:

The main aim of the research is to make up an analysis of financial performance of British Airways (BA) over a three year period (2007-2009). Apart from the discussion of the financial performance, the report would also

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be looking at the micro and macro economic factors that lead to the expansion and development of the overall growth of aviation industry in UK.

Research Objectives:

- To analyze the financial performance of British Airways in lieu of the recent financial crisis, and forming an in-depth discussion of how the financial crisis has affected the revenue, cash balances, and stock prices of BA.
- To evaluate the factors that lead to the direct effect on growth rate of the airline industry.
- To ascertain the macroeconomic as well as microeconomic factors those affect the financial performance of BA.
- To understand the global trends and fashions adopted in the industry as well as viewing the BA as playing a key role in global aviation industry.
- Observation of the effects of modern technology on the performance of BA on financial and economic grounds.

Research Approach:

Researcher will make the most of qualitative as well as quantitative methods to ascertain the research objective and aims. The Qualitative method uses a number of approaches and it will be based on different theoretical principles, such as Hermeneutics, Phenomenology, and Social interactions.

The quantitative approach would also be taken, based on the principles of positivism, as well as neo-positivism. The approach would be based on the pre-designed standards which are developed before carrying out the actual

research (Adams et al. 2007). The significance of qualitative and quantitative methods in a research project as follows: “ If graduate students are to blend qualitative and quantitative research methods in their research study, they can profit at the outset from considering three questions: How are the terms qualitative and quantitative best defined? What are examples of qualitative and quantitative methods? How can the two methods be compatibly combined?” (Murray, 2003)

The argumentative reasoning adopted in this report would be based on inductive as well as deductive approach. Saunders et al. (2003) define the inductive approach as the one in which you gather data and form data analysis on the basis of which you develop a theoretical approach. On the other hand, they have defined the deductive approach as the one where a hypothesis is developed first and then a research design is established to explore and test that hypothesis. The very useful approach is to attach both of the approaches to different philosophies; the inductive can be considered more as qualitative approach, where as deductive as more of a quantitative approach (Saunders et al. 2003).

Methods of Data collection:

There are two types of methods which are given below.

Primary Data collection: This data collection is based on interviews, group discussion, Informal Discussion, Debates, Surveys, Community meeting and events (Kumar, 1996).

Secondary Data collection: This data collection is based on books, journal, articles, websites, newspapers, magazines, television and company financial reports (kumar, 1996).

Data Collection process:

Researcher has used mainly secondary source due to availability of reliable and bona fide information. The sources that the researcher has used would basically concern the annual reports from 2007-2009 periods from the website of British Airways. The economic survey of United Kingdom, as well as stock prices would also be used to explore the financial performance of British Airways. Researcher has managed to gather these sources through secondary approach. Therefore the primary sources are not very much often used. The audited financial statements of British Airways are the most relevant source for data collection on the basis of which analysis would be conducted. These financial statements or other relevant data is attached in the Appendix at the end of the research study for the convenience of reader. Researcher has used reference books as well as ACCA text books of paper F7, F9 and P3.

Use of secondary sources can be associated with many advantages as well as disadvantages:

Advantages

Adams et al. (2007) have described the advantages as below:

- Larger delegate samples are available, which are considered well beyond the research of an individual researcher.

- Secondary data is an excellent source for inspecting the longitudinal data as well as other trends.
- Researcher can focus more on the data analysis as well as on its interpretation.

Limitation of Data collection:

According to Adams et al. (2007) the disadvantages of the secondary sources as below:

- Data may not be compatible, or the information that has been collected for the data analysis may not be relevant to what is required.
- The research might be limited in terms of its depth and information gathered might be odd or not up to date and recent concerns might have been over shadowed that can make the research and analysis outdated.
- The information might not be gathered from whole time period that should be covered and there might be found research gaps.

Business and financial performance techniques used:

Researcher would exploit the following four business and accounting techniques in this research:

- Value chain analysis
- Porters five forces analysis
- SWOT analysis
- Financial Ratios

As the above mentioned techniques will be elaborated below :

Value chain analysis:

This technique would be useful in gaining the competitive advantage as well as generation of the shareholder value in the market. The analysis basically divides the business into a series of value-generating activities, known as value chain. The actual purpose of the value chain is to better understand the activities with the help of which the firm develops competitive advantage with the course of time in the market. These activities can best be described by the following picture:

(Source: <http://www.provenmodels.com/26/value-chain-analysis/michael-e.-porter/>)

Porter's five forces analysis:

This technique allows an organization such as BA to seek for outside forces, i. e. companies involved in market competition that tend to affect the competition within the airline industry. Porter five forces model is as follow.

Source: Book On Competition By Michael E. Porter

Monczka et al. (2009) stated five points as follows:

1. Highest level of competition in the market would lead to creation of more options and chances for buyers as well as suppliers.
2. Risk of entry of new competitors in the market.
3. The threat posed by substitute entrants, i. e. products and services.
4. Extent and power of buyers.
5. Extent and power of suppliers.

The key limitation posed in this model is occurred when there is some innovative movement in the market in terms of technological progress which may alter the whole status quo market structure in a very short span of time.

SWOT analysis:

This technique would analyze the strengths, weaknesses, opportunities, as well as threats for BA through inside or outside forces. The main issue at hand then would be to minimize the threats as well as maximize the benefits by British Airways

Strengths:

- Business strengths are, the things which business doing well or, it have which are better than others e. g. Loyal experienced personnel, efficient processes, Advanced IT systems, better customer care, or any other internal factor that leads to success. Strengths of an organization give it a competitive advantage over its competitors

Weaknesses:

- Activities which an organization carries out badly and don't have specialist knowledge to perform in better way are weaknesses of the organization. These weaknesses are internal to organization.

Opportunities:

- These are the factors which the management could take benefit of, e. g. new IT systems, latest technology t, new products etc.

Threats:

- These are issues which can have harmful effect on the performance and activities of business. Threats are generally from outside the

organization unlike its strength and weaknesses e. g. substitute products or economic downturn, and these factors are outside of control of organization.

International institute of business analysis (2005-2009) *A Guide to Business Analysis*

Ethical issues:

As a professional ACCA student it is my responsibility to comply with ACCA five ethical principles i. e. integrity, confidentiality, objectivity, professional competence and due care. It is therefore in my research I have not breached any of these ethical principles. So that research work done is not copied or duplicated and I have complied with oxford Brooks University's outline that is the used Harvard referencing system.

Business status Of British Airways:

British Airways is leading scheduled premium international airlines which flays to over 150 destinations and ha 250 planes in service. British Airways is based in UK and its main revenue earner is UK and in 2008/ 09 48% was generated from UK . 22% was from continental Europe and from USA it was 17% and rest was from rest of the world.

Since 2008, British Airways have taken many new initiatives to reduce their additional costs that can enhance their profits. They also have increased the number of flights including Africa as well as Central Asia. These flights will definitely help them in finding new routes and clients as well as cutting down their overall costs. The new routes or flight might however not be very much profitable for them as the flights to central Asia and Africa are not organized very often and are not considered quite profitable routes. Another notable

point is concerned with the bad performance of British Airways which was due to sudden rise in the prices of oil during the period 2007-2009.

According to British Airways chief financial officer's report, the profits reached record levels in 2007-08 as they achieved the target of 10% operating margin for the first time. But for the year 2009 even though revenues were increased but operating costs were significantly increased which turn the profit in to loss. Economic recession has hardly hit British Airways and exchange rates have also adversely affected on British Airways. Pound sterling has lost its value to euro and dollar.

The increased fuel prices in years 2007-2009 have directly affected the revenue as well as profits of the industry, whereas it is evident from the graph below that the reduced prices in oil have again raised the profits of the firm to greater amount. The major loss incurred in 2007 by BA was due to the volatility in oil prices and devaluation of pound sterling against dollar and euro. The reduction in the number of passengers lesser than the average annual rate was also low, which can be due to social and economic constraints on the individual level. Even though there was plenty of reason for economy shrinkage but British Airways sales were increased. The graph given below would explain the trends concerning revenues and profits of BA for the period of 2007-2009:

British Airways revenues increased from 8492 £million in 2007 to 8992 £million in 2009 and as in the graph above it can be seen that operating revenues are increasing through the period by 3% which is a healthy sign for the company.

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Even though BA's revenues are increased but profits have fallen sharply and converted in a loss after tax profits have become losses and 401 £million loss which was recorded in year 2009 is very significant. It is specifically down to fuel and oil cost which has increased sharply by 900£million and some restructuring is been done in its employees contracts which will give benefits in future.

Share price of British Airways was at its peak in 2006/07 but after that there is rapid decent as shown in graph below:

<http://www.financial-spread-betting.com/shares/Spreadbetting-British-Airways.html>

Share price was at 6.60 £ in 2007 and it start dramatically falling and in year 2009 it was as low as to 1.34 £. but after that there is a recovery and share price is increasing gradually.

The reduction of the carbon footprint was the one step that was taken in early 2008 and has been quite successful in attracting more customers than ever before. The 2009 annual report also stated some of the new IT systems being introduced as well as implemented, given as follows:

- Cargo tracking
- Reservation system
- ULD management system
- AIRCOM; a technology that provides the location and movement of the aircraft in real time

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- Movement manager and dispatch manager in flight operations of British Airways

The performance of British Airways is very much closely related to the economic conditions. Therefore, it would be very important to consider the state of economy. It should first be noted that the economic crisis has badly affected the economy of US and UK, and after the recession economic growth is far less than inflation. The individual economic condition would suffer so it would also be affecting the whole state's economy, and based on that the customer base of the airline industry would also be affected as most of the customers would prefer to travel through train for domestic travel. On the other hand, the consistent downfall in the purchasing power of the consumer as devaluation of pound would also affect the per capita income which would directly impact the consumer base of British Airways.

The economic survey held in UK in 2009-10 stated that year 2007 was the worst year for airline industry. The overall decline of 2.4% in the passenger demand was recorded in the year 2007 alone. However, the losses incurred in 2007, as some economic analysts say, had been met in the 2008 year as the profits were higher and losses lesser, which became worst again in 2009. Although there was some relief in fuel bills but economic recession continued to cause a decline in passenger and freight demand. Long term investment in the period 2007 to 2009 specially restructuring of employees and there contracts BA will gain advantage from it in future.

Even though BA's financial performance is not great but operationally however, BA is achieving levels of excellence which were never seen in the history of the airline and have won awards for that.

Analysis of British Airways using business and financial techniques

By using different business and financial models here's a brief explanation of value chain and analysis of British Airways value chain.

Analysis of British Airways through Value chain analysis:

The similar approach as mentioned above in the value chain analysis section would be adopted here, as to develop an understanding of several activities in BA and concerning how it is important in offering the competitive advantage to the firm in discussion.

The British Airways have managed to control the system through forward and backward integration.

The primary activities for BA to take great care would be considered as follows:

Inbound logistics: BA has managed to control the stock. It has also managed to make ongoing relationships with the suppliers.

Operations: The BA management has enabled to make increased bagged security. The management has also taken steps to improve the quick check in services as well as secure online bookings. It has also enabled itself to pre-book additional services.

Outbound logistics: BA has managed to improve the customer services. It has larger database of airport slots which provide majority of the passengers a facility to access their destinations from preferred airport.

Marketing & Sales: The BA has also developed the marketing relations with all the well known and large stake holders.

British Airways support Activities

The structured chain of command permits the BA to utilize the multitude of specialist for gaining the competitive advantage of the downsized organizations.

The human resource management is the integral part of this analysis. The investment made in the development of the customers through service training in 2007 which attracted the best employees. The surveys and questionnaires appreciate the employees and other support staff to provide the feedback.

The technological development is also an integral part for BA to look for keeping the services up to date. BA has managed to add value to the smaller companies due to the floppy resources that can be used to recreate the resources,

The size of this business as well as coalitions and alliances BA has succeeded to make since the long time in history has led to make BA able to leverage the suppliers as well as through the economies of scale for developing efficiency where the other competitors have most of the times failed.

Application of Porter's five forces to evaluates British Airways performance:

The porter's five forces analysis would discuss the negotiating power of the suppliers, and consumers; threat posed by the substitute products, and new services or products into the market, as well as the competition in the market.

Existing competitors/rivalry.

UK airline industry can be divided in two major sectors budget airlines and schedule airlines. Where schedule airlines operate worldwide as well as in Europe. While budget airlines mainly focus on the short distance destination. British Airway has to compete at the same time in both sectors. Market share in relation to their competitors is not very significant.

It is important to discuss existing competition in the industry because this situation may offer opportunity or threat and company might have to take some actions e. g. innovation, deliver excellent customer services, research and development.

Market share of British Airways in UK can be divided into two categories in respect of long haul and short haul destination. As given below graphs illustrate the long and short haul destinations from the year ended 2004 to 2008.

Data Source: [www. mintel. com](http://www.mintel.com) (2009)

As the above mentioned graph demonstrate that British Airways market share is declining. Graph shows market leader Delta airline share is reducing significantly since last three years. But there are some airlines industry like

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Emirates and Singapore airlines capturing more market share. And also low cost carriers like easy Jet has also start flaying to long haul destinations and has shown increase in there market share over the last five year period even though comparatively it is not that much worry as it is in short haul destination market share.

Source: mintel (2009)

The above given graph explains that market share of British Airways increased by 15. 6%. But as compare to its competitors easy Jet , who's market share increased by 106%, BA increase is not significant not significant and Rayanair is market leader and capturing more and more market share every year and over the last 5 year they have recorded 117% increase in there market share.

Threat of new entrant.

According to Mockler (1994), threat of new entrant indicates the new firm entry in an industry with innovation, new ideas and creativity such elements enable new firms to capture market share.

In the case of airline industry the entry barriers are significantly high because it is much more regulatory industry. But still in the past there are many new entries in the industries e. g. easy jet which are performing outstandingly as compare to British Airways. Any new entry in that industry could lead British Airways to decrease in profits and revenues as well as loss of market share.

Power of the customers

According to Mockler et al (1994), determining bargaining power of customers is important for strategy and overall business objectives.

The strength of negotiation power of customers of British Airways is neither very high nor very low. Customers have different kinds of choices like low cost airlines e. g. Ryanair airlines, easy Jet etc and schedule airline Virgin Airlines, BMI airlines etc. Therefore customers have wide range options to choose from and there is no switching cost to customer. Therefore it is important for British Airways to keep customer loyalty. Fare levels are very crucial to attract all classes of customer and provide them with things which they value.

Power of suppliers.

The negotiating power of the supplier is always very high as there is always a limited number of suppliers in the market e. g. Boeing and Airbus. As both of these are major suppliers of airplanes in the industry and providing more planes to more than 650 airlines. Other major suppliers for the airline industry are the oil companies, who are providing oil and energy to many industries and the airline industry is not the major consumer of their products. BA has a restriction to choose the oil provider, one who has contracted to supply oil to that airport. BA employees are well unionized and force their power collectively which we have seen in recent strikes.

Threat of substitute.

Geographically UK is an island and main methods of transportations in the past to Europe and rest of the world through the sea or by air. But recently

introduction of channel tunnel from UK to France has given another alternate route for travelers to Europe. And introduction of euro star means much faster route to travel to continental Europe compare to airline industry long waiting before boarding and after arrivals. And this has forced some threat to air line industry in UK. But it is not that much significant for BA because it fly all over the world not just to continental Europe.

Application of SWOT Analysis on British Airways:

The SWOT analysis would provide a detailed analysis for British Airways concerning its strengths, weaknesses, opportunities, as well as threats.

Strengths

BA has a very strong power even in an oligarchic system which gives this firm capability to even set the prices not by coming on the pressure of the other competitors by using its differentiation strategy. Major strength of British Airways is that it controls the landing and take of slots at Heathrow air port which is one of the largest airports in the world. BA, as compared to its competitors, is considered as well in a sense it is more equipped with technology and always uses up to date technology, e. g. it relatively has new planes than other firms. It has relatively larger market to target including domestic as well as international customers.

Weaknesses

Main weakness of British Airways is its suffering financial performance. The high amount of debt that BA had incurred in 2007 was a result of their bad organization of operational activities . British Airways employees are highly unionized which means strikes are still on the cards and BA has a great deal

of influence from the UK government in terms of devising several rules. This type of outside mediation can greatly reduce the organizational efficiency. In the organization internally or externally there are lot of issues of trust which are effecting its performance.

Opportunities

British Airways have lot of opportunities to exploit in future . Mega sporting events of next decade are to be held in UK including Olympics, cricket, football and rugby events through out . which means BA has opportunities to take advantages . it needs to make strategies to exploit the International market.

British Airways also can start flying more flights to other growing economies e. g. China , India because London is the financial hub . United kingdom is metropolitan so BA can exploit this opportunity and start flying to other countries from where people are coming more often.

Threats.

Major threat which is faced to British Airways is from the cost competition. As number of low cost carriers are performing well in last five years it can be speculate that in economic down turn these low cost carriers will perform better.

Threats to BA also include the fact that extremism and terrorism has made the whole world its prey and any kind of activity can be expected from such fanatics as well. Additionally, the high interest rates, as well as the depreciating currency have also affected the overall performance and

profits. Recently bank of England has announced the inflation rate will be far more than growth so this can lead in to down fall in sales.

Financial ratios:

This section will discuss the financial ratios which would analyze the behavior of the firm in terms of the financial performance of BA. The financial ratios are being calculated for the period of 2007-2009 and after the calculation of the ratios of all the three different periods separately, the results will be drawn which will compare the financial performance of BA over the three years concerning different periods of times. This section would also develop the detailed account of the use of financial ratios which would also be discusses in terms of what these ratios are determined for and what is the reason and intuition behind each of them regarding the financial ratios calculated. These ratios are used as a standard in building the comparison of BA's performance over a period where different years' performance would be compared actually. These can also be compared with the other companies which are in competition with BA, either domestically, or internationally. Calculation of the financial ratios is very important and if the companies do not do this exercise, then they would not be able to track their performance efficiently. The companies will keep themselves in dark if they do not keep the record of the financial ratios and they would also not be able to keep informed themselves concerning what and how their growth can be made. Interpretation of these ratios can sometimes put up ambiguous results, so the companies do need to the exact calculations and to put those numbers exactly. Now the research would turn to determine the important financial

ratios for developing the understanding of the financial performance of the British Airways over a three year period of 2007-2009.

Liquidity ratios:

The liquidity ratio is calculated to measure the ability of a certain firm to pay off the bills. Some of the key financial liquidity ratios would be mentioned as follows:

Working capital:

Working capital is like blood in company, which is necessary to make company operate. Working capital is the measure of the difference of current assets and the current liabilities of the company. Working capital is actually operating liquidity which is there for business to operate and is necessary for day to day operations and it quantify business short term financial health.

The equation for the ratio goes as follows:

Working Capital = Current assets - Current liabilities

The net working capital of British Airways and Easy jet for the period of 2007-2009 is as follows:

Graph

As it could be seen from graph that working capital position of British Airways is not very satisfactory, and the negative figure indicate that working capital management is poor so current assets are less than its current liabilities British Airways can be in danger to fade short term

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financing problems . which can give a little indication of overtrading in some cases . it is clear from the graph that over the three year period its net working capital is gone bad to verse, and from 194 £million deficit its now 1820 £million deficit. While on the other hand its competitor Easy jet's working capital level is relatively stable over the three year period. Decrease in British Airways working capital was 1439 £million from year 2008 to 2009 which was 377% decrease and it is alarming for its liquidity.

Current ratio:

Current ratios indicate business capability to pay its short term debts. Higher current ratio suggests business has more power to pay its obligations.

Current ratio's formula takes the assumption that the inventory which is in fact part of the curr