

The merger of british airways and iberia management essay

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



British Airways (BA) boss Willie Walsh has said the planned merger with Iberia is “great news for British Airways, our customers and our shareholders”. British Airways is a flag carrier of the UK. British Airways has become the largest airline in the UK with 225 aircrafts serving over 150 destinations worldwide[2]. Iberia is a national flag carrier of Spain. Iberia operates in more than 120 destinations with 183 aircrafts[3]. The reason behind the merger is that it is benefiting both airlines in terms of booking, extensive share-code network, ground staff, and lounge service. This type of merger is the same as Air France-KLM[4] which benefits both airlines and has proven to be successful. This merger can be classified as ‘Horizontal integration’ where two organisations join in the same level of production. The merger of BA and IB will make them the 3rd biggest airlines in the world behind Air France-KLM and Delta-Northwest.

I am going to look at the impact of the merger on the stakeholders, the shareholders, the staff and the customer, to see how merging benefits both of the airlines. I will construct a SWOT analysis to find the answers to this investigation but also using economies of scale and the concept of synergy to analyse what is happening as a result of the merger.

From using all of my data we can attempt to answer the following question: “What will be the impact of a BA/IB merger be on stakeholders?”

Findings

The new company will be split 45% to Iberia and 55% to British Airways and will be based in Madrid, Spain[5]. As I mentioned earlier, this means that

both of airlines will benefit in terms of overall business and it is a way to help each other to turn red figures into black figures and to compete with budget airlines. (not very important)

This will bring both airlines into the world of sharing which results in everything being shared e. g. ground staff, maintenance, and offices. this allows flexibility for passengers and cost saving. Despite it being a good benefit of both airlines, job losses have been a major concern from the result of merger. British Airways have cut thousands from its workforce like Iberia because the merger has meant that not as many people need to be employed[6]. These concerns may lead to a problem in the workforce for example a lack of motivation, working too many hours as well as other concerns. (you mentioned in analysis and discussion already)

Mergers between two airlines provide many benefits including economies of scale, International competition, greater investment and greater efficiency. [7]The purpose of Economies of scale is to reduce the average or unit costs as an organization grows in size (internal), or as the industry in which an organization operates grows, and/or concentrates in a geographical area (external)[8]. The main economy of scale is technical economies where the average price per unit falls due to the fact that they don't need to duplicate things as a result of the merger, with a number of costs decreasing in the administrative section as the firm merge operations in a London based office. This will give the airlines the go ahead for a joint transatlantic venture in which marketing, ticket sales and operations can effectively[9]be merged with American Airlines. It is a big step along the way to form code sharing.

Synergy is the concept of “ The whole is greater than the sum of the individual parts”[10]. This means that British Airways and Iberia will be a greater force together than they would be separately.

The new company is likely to be based in Spain, where costs for both labour and land are likely to be cheaper than in the UK. There will still be some offices based in London, looking after the financial and administration side of the business. (I think you don't need to include this)

Analysis of findings

After analyzing the SWOT[11], we can see the merger has enabled both companies to expand their worldwide opportunities and it potentially removes the overcrowding issues at Heathrow and Gatwick airports although terminal 5 has already helped solve this problem. For Iberia there are also many benefits from the merger for example, they are able to reduce their costs, improve their brand image, increase their network and fulfill the opportunity of a strategic alliance. The threat of bankruptcy has become even more problematic for Iberia with the global increase in fuel prices and the growth of budget airlines. This shows how the merger of British Airways and Iberia has helped them to eliminate their weaknesses and exploit certain opportunities.

The merger can help BA overcomes their main weakness “ Britishness” as having a strong British identity can be resented by some European customers and being associated with Iberia may will attractive them. For Iberia, having the merger with BA can mean gaining access to their routes

and increasing its market share as Iberia used to have a very limited network.

The advantages of this merger are its economies of scale. As we know BA is the largest airline in UK and has its main hub at Heathrow Airport, the world's busiest airport and many other airports e. g. Gatwick, Manchester and Newcastle. Therefore, it has significant fixed costs so both would have lower average costs if they merged. As they share the company they can buy necessary accessories due to bulk buying, this will reduce costs. There will be better rate for large companies in financial areas and also organizational problems will be much easier to solve due to having one head office rather than two.

Moreover, they will be in a better position to deal with the threat of multinational companies and compete on an international scale but also the merger attracts investors in the company because the firm will generate more profits than a single company.[12]

If the merger leads to an increase in market share, either in local or national markets then this could lead to a monopoly, which is a firm with 25% of the market – (btw this is an disadvantage so you might want to rephrase this paragraphh.)[13]. With a significant cut in costs, this could either benefit the customers, if these were passed on in the form of a reduction in price or shareholders, if the efficiency gains were paid in the form of a dividend.

Willie Wash (The Chairman at BA) says that the merger will be ' good for passengers'.[14]This may not be the case – strike action already threatened

over the Christmas 2009 and although it was about the unrelated subject of pensions, this does show that trade unions are prepared to take action.[15]

The biggest impact overall will be the job losses[16]. Both of the airlines may need to make some workers redundant, especially at management levels. Reducing the number of workers would have an effect on their motivation and loyalty. In fact, thousands of workers are under threat due to the merger proposal. Iberia has already started its plans to reduce its costs by introducing a higher freeze until 2012 and early retirement for over 55 cabin crews, and 14, 000 crew members are up for strike at BA. As they are two airlines from two different countries, clashes of culture between BA and Iberia can occur that is reducing the effectiveness of the integration. This could result in diseconomies of scale which could potentially cost each company.

Unfortunately there are many issues in the Spanish workforce. Spain has the highest unemployment rate in Europe, which once went over 20%. Youth unemployment was particularly high. The under-25 age group accounted for nearly 55 percent of all unemployment, a factor that contributed to street crime. Like I said, there is going to be a great number of job losses from the merger of BA and Iberia. This makes the Spanish workforce situation worse and increases the unemployment rate. Unite is the biggest trade union in UK and it fights for the employees in the workplace, they are powerful because they can organize strikes which can disrupt the airlines, this is a similar story in Spain, who also have strong union representation.

One of the biggest potential problems of such a merger is potential culture clashes and also coordination problems. This could result in diseconomies of scale which could potentially cost each company. This once again could be a problem for the staff. (I copied some and put it sentence above)

Conclusion

The merger affects the main groups of stakeholders such as managers, shareholders, workers and customers. The merger between these two airlines can benefit the shareholders as the new business will be able to make significant cost savings or enhanced revenue opportunities because of its more powerful position in the market. The benefits to the customers are that common passenger terminal will be used there will also be more options for customers as passengers can book legs of a flight on different airlines using one ticket. This merger is a good thing for the companies as it helps to reduce cost and this is important because there is increased competition from budget airlines such as easy jet and Ryan air. Looking at the articles, it would appear that the merger offers plenty of opportunities, particularly in the long run. In the short run however, there could be potential problems with the transition, not least the potential for strike action, which may effect the reputation of both companies.

Appendices

A SWOT analysis of British Airways

Strengths

Strong brand image

Low-cost provider

International network

Weaknesses

British identity

Overcrowding at hub airports (Heathrow, Gatwick)

Opportunities

Expand into new EU markets

Take over weaker European airlines

Threats

Consumer resistance to brand name in new markets

A SWOT analysis of Iberia

Strengths

Strong regional identity

Weaknesses

Poor brand image

High-cost provider

Limited network

Opportunities

Strategic alliance with other EU airline

Threats

Takeover by major competitor

Bankruptcy