

Challenges of change facing british airways

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



Chosen Question: Select a London-based organisation and analyse the challenges of change facing it and how it is approaching the process of change. Where possible do so by reference to theories of change management.

LEADERSHIP AND MANAGEMENT:

Executive Summary:

Airline business is a difficult company. It has been well-known in the direction of being the mainly economical company in all over the world. Marketing executive must also be ready for action on the way to manage through the challenges of this variety of business.

British Airways is one of the market influential within the airlines industry in U. K. The corporation has it huge opportunity. The airline is dedicated towards quality-service. In count, it has its aggressive advantages. British Airways has enormous opportunity of increasing and getting better of its services.

In this we discuss about the various challenges of change faced by the British Airways and in what way it is approaching the procedure of change.

Introduction:

British Airways is one of the leading airlines in the world. This case traces the airline's history and discusses the process of turnaround during the 1980s under the leadership of Lord King and Colin Marshall.

The case also discusses the subsequent turbulent period under CEO Bob Ayling and the challenges faced, including recession, competition, terrorism and the Gulf war. The case closes with an outline of the tasks ahead of the incumbent CEO Rod Eddington. The case can be used to illustrate the importance of leadership in bringing about cultural change.

Challenges faced by British Airways:

The economic conditions that prevailed throughout 2009/10 were the most severe they have ever encountered. As a result of the worst recession for 60 years, their industry has faced a series of permanent structural changes that have drastically reduced their revenues in the short term and have permanently changed the economics of running a premium airline.

These problems are in themselves formidable. But, in addition, British Airways faced a list of daunting challenges of its own. These included the need to:

- Raise finance at a time of continuing crisis in the debt markets;
- Radically reduce their historic cost base;
- Change working practices;
- Complete their planned merger with Iberia;
- Win an acceptable anti-trust agreement to cooperate with American Airlines and Iberia on North Atlantic routes; and
- Tackle their £3. 7 billion pensions deficit successfully.

Twelve months on, they can feel satisfied that on every one of these issues, they have either tackled or made significant progress in overcoming the challenges they faced.

Permanent change

They entered the recession financially strong and with their fleet replacement plans fully financed to 2013. In August 2009, they successfully raised £350 million through a convertible bond issue, providing them with the finance to keep investing in their business and maintain their focthem on excellent service as the recession runs its course. Over the year they reduced their unit costs by 6.5 per cent. Their fuel bill fell by nearly £600 million, accounting for a large element of this decrease. Unit costs excluding fuel also fell by 1.8 per cent. This was truly a remarkable achievement. It is hard enough to cut

costs when capacity is rising; to do so when capacity is in sharp decline is very difficult indeed. Their cost base is now far more competitive, meaning they are well placed to achieve more profitable growth in the future. They successfully carried the majority of their workforce with them in making changes to working practices, including their pilots and engineers. A number of staff have left the Company on voluntary terms. They have succeeded in introducing permanent cost reductions across the airline, including reductions in crew complements. Regrettably, these changes were met by unjustified strike action by Unite's cabin crew branch. BASSA misrepresented the Company's position to its members, failed to represent the views of the majority of cabin crew and has been intent on a confrontation with the

airline. The vast majority of their employees recognise the need for permanent change and have shown great commitment to British Airways during this difficult year. Their relationship with Iberia is very strong and they have now signed a merger

agreement that they know will bring real benefits to their respective customers and shareholders and protect the brands of the two airlines. If remaining technicalities are successfully dealt with, as they fully expect, the merger should be concluded by the end of 2010. Similarly, all the signs are that they can win anti-trust immunity from the THEM Department of Transportation along with regulatory approval from the EU competition authorities, to operate a joint business with American Airlines and Iberia over the North Atlantic. When in place they will be able to operate on equal terms with Skyteam and Star Alliance that already enjoy immunity. Their agreement will mean more competition not less, and greater choice for travellers on these busy routes. Finally, they are progressing with negotiations to agree a way to fund their £3.7 billion pension deficits that satisfies the Trustees and meets their requirement that they will not have to increase their contribution to the schemes in the short term. Whilst the valuation has been agreed with the Trustees, it is currently under review by the Pensions Regulator. If they can keep the schemes open for existing members it will be a significant achievement - and one that has eluded many other businesses in recent years. I hope you can see how huge an agenda of change they have tackled. In that sense, 2009/10 was a year of great achievement.

Financial results

Their progress is all the more remarkable at a time when all their principal business customers changed their travel policies

at the same time, turning their back on premium shorthaul travel and reducing their revenues by £1 billion. Against that backdrop, they recorded another year of heavy losses in their business. They recorded their biggest ever half year loss of £292 million. Early and far-reaching action on costs began to show through in the second half of the year and they were even able to post a small operating profit in the third quarter. For the year as a whole their pre-tax losses stood at £531 million compared with a loss of £401 million in the preceding year. They cannot afford to lose sight of the scale of their losses in the last two years, even though they came on the back of record profits in 2007/08. Their business simply will not survive long term unless they stop losing money on this scale.

Dividends and executive pay

The programme of change they are pursuing in the business is all about making sure they have the resources to deliver outstanding service to their customers, secure and rewarding employment to their staff and strong returns to their shareholders. Given the state of their market they have frozen pay across the airline for two years. They have once again decided it would be inappropriate to pay a dividend or executive or staff cash bonuses.

Customer focus

Their primary focus must remain on their customers no matter how severe the economic conditions they face. The customer is at the very heart

of their plans to build an efficient global premium airline and to achieve lasting and sustainable profitability for this business. During the year, they continued to outperform in their punctuality scores, not just at Terminal 5, but across the network. Maintaining that record has involved some magnificent work by people right across the business and they take immense pride in their achievements. Their customer service scores remain strong despite

significant operational disruption.

An industry in transition

Consolidation will be a growing theme for their industry for the foreseeable future and they are pleased with their own

progress in building new partnerships and alliances. But progress on liberalising the global industry remains painfully slow, nowhere more so than in the recent protracted Open Skies negotiations between the THEM and Europe. They had hoped that the conclusion of the EU-THEM second stage negotiations would have resulted in the immediate removal of THEM restrictions on ownership and control and the protectionist 'Fly America' policy. Unfortunately, instead of the ambitious agreement that had been promised by both sides that would have acted as a template for further global liberalisation across other trading blocs, they have ended up with an agreement that fails to deliver a truly open market for aviation. This represents a missed opportunity to create a healthier and more efficient industry for the future. Indeed, the only hope for progress may lie in moving the issue to a more powerful arena such as the Trans Atlantic Economic

Council where Europe could offer wider trade concessions, in sectors such as agriculture, in return for progress on air transport. These restrictive ownership and control requirements that prevent cross-border airline mergers, need to be consigned to the history books – and fast. Only then will they see the true benefits that ‘normalisation’ of the industry can achieve – as is already the case with other sectors of the global economy.

Climate change

As a company they have led the way in searching for real and radical ways to tackle climate change. Not only have they set ourselves industry-leading targets to cut their own emissions, they are also strong advocates of carbon trading and believe aviation should be part of a global emissions trading scheme. The Climate Change Summit in Copenhagen in December presented the industry with an ideal opportunity to come together and make this a reality. For many reasons the outcome from the summit was disappointing not least as no reference was made to the airline industry. However, it is clear the governments of the world recognise the airline industry is taking a responsible position and is indeed ahead of its regulators in wanting to tackle climate change. The industry continues to work closely together to develop and promote its position. It’s now down to the regulators and Governments to show commitment to the industry and to allow them to play their full part in contributing to the global reduction in greenhouse gas emissions.

Economic outlook

The worst of the recession seems to be over. Unemployment in the UK, for example, seems to have peaked and at lower levels than had been feared. In

their own business, February saw them record the first increase in premium traffic since August 2008. But recovery is precarious and it would be foolish to assume they are out of the woods yet. The new UK Government will be forced to make some very unpopular decisions in the weeks and months ahead. Tackling the deficit remains the biggest priority. The new coalition Government plans to make immediate cuts in the deficit, they believe this threatens real dangers, not least that increased taxes and hasty spending cuts could throttle consumer confidence and trigger a double dip recession. It is vital that the UK develops a credible, measured plan to reduce the

deficit, spelling out the reductions that are needed and the timescale in which they will be achieved. With election grandstanding now out of the way, this must be a priority for the new administration.

A tremendous effort

It's been an immensely difficult year for my colleagues across the business and I want to thank them for the tremendous work they have done. The spirit they've shown in supporting the business through one of its most difficult periods has been unbelievable. It's involved a lot of hard work and considerable personal sacrifices.

Their prospects

Their own recovery depends very much on how fast the general economy returns to growth. They remain cautious on that. They expect the climb out of recession to be a relatively slow one. However, I am convinced that the work they have done over the last 18 months to restructure their cost

base and the progress they have made on the challenges they faced at the start of 2009/10, mean they are a far more resilient business today. That means they can be confident about surviving through further economic uncertainty. More importantly, it means they will be in a position to achieve higher levels of sustainable profitability when conditions improve. That is very good news for their customers, their staff and their shareholders.

Approaches for the various challenges faced by the British Airways:

“ One of the significant ways to distinguish one airline from another is in terms of the quality of its decisions. They use operational systems to run the business and business intelligence, delivered by Business Objects query and reporting tools, to manage it.”

British Airways Improves Customer Relationship Management and Maximises Revenues with Information Delivered by Business Objects

The airline market is fiercely competitive with strong demand for lucrative business traveller routes due to capacity restrictions at major European airports and ‘ low cost’ entrants offering cheaper flights for the leisure passenger. Leading UK airline British Airways, is underpinning its strategic operations with business intelligence (BI) delivered by Business Objects solutions. British Airways use BUSINESSOBJECTS™, the integrated query, reporting and online analytical processing tool (OLAP) to access, analyse and share information stored in British Airways’ data warehouse. British Airways is also currently in the process of extending the decision making process

worldwide via WEBINTELLIGENCE®, the internet BI solution from Business Objects.

Strategic Decision Making

British Airways is one of the world's most successful airlines, carrying over 48 million passengers a year. Peter Blundell, Knowledge Strategy Manager, British Airways, says " One of the significant ways to distinguish one airline from another is in terms of the quality of its decisions. They use operational systems to run the business and business intelligence, delivered by Business Objects query and reporting tools, to manage it."

BUSINESS OBJECTS is used throughout British Airways, with dozens of applications taking information from a central data warehouse. These cover all aspects of the business from CRM applications supporting the frequent flyer programme, through yield management and revenue analysis to catering supply chain management. Blundell explains, " With BUSINESS OBJECTS they have been able to provide any line manager with the capability to assess relevant business information without requiring an army of data specialists."

British Airways' primary challenge is to make the airline as a whole and each route profitable. This is complicated since the company is unable to change product offerings very quickly. With the capacity restrictions in many airports, routes have to be negotiated and published some six months in advance. " BUSINESS OBJECTS supports their long term planning, analysing the number of flights per day, routes and aircraft types that are most

appropriate,” says Blundell. “ This drives their negotiation for capacity constrained routes.”

Maximising Yield

Every airline has to achieve a balance between availability of higher priced business seats and filling the flight with cheaper leisure fares. British Airways is using BUSINESS OBJECTS to analyse customer behavior and flight sales to maximise yield on each route. The business and leisure traveller have very different needs, with the business traveller looking for frequency of flights, punctuality and good customer service, while the leisure traveller is looking for value for money. Customer service also provides an area of differentiation. British Airways’ promotional activity tailors offers based on customer preferences and travel history. “ The costs the market will bear are different on each route, at different times of the day and week and depend on the level of competition on that route. BUSINESSOBJECTS

enables them to better understand booking and customer profiles and use that information to maximise yield on each flight by creating the right promotional offer to each customer group.”

British Airways Leads Punctuality League

Two of the most successful BUSINESS OBJECTS applications have addressed punctuality and baggage handling. Analysing sources of delay, by type, route and reason has enabled British Airways to significantly improve its position in the punctuality league of European airlines. “ For business passengers, punctuality and efficient baggage handling are critical factors that drive the choice of airline. British Airways wanted to improve it’s punctuality and

BUSINESS OBJECTS was part of that solution. By analysing any problems with BUSINESS OBJECTS they have become one of the top rated European airlines for punctuality.” A similar analysis using BUSINESS OBJECTS to look at baggage handling enabled the company to highlight reasons for baggage failing to connect with the right flight. “ While there was time for passengers to make the connection it was not always possible for their luggage to make the same journey. They have overcome that problem and significantly improved our baggage handling as a result,” says Blundell.

Worldwide Business Intelligence

Having created a business intelligence infrastructure that is underpinning decision making throughout the British Airways head office, the company is now looking to broaden its user base from one thousand to potentially ten thousand worldwide via its intranet. Blundell explains, “ They plan to use Business Objects

WEBINTELLIGENCE internet BI solution to deliver the business intelligence functionality they have developed

to airports and offices around the world. By leveraging the intranet and WEBINTELLIGENCE, they can deliver key

business information in a cost effective manner.”

Using WEBINTELLIGENCE, British Airways will be able to provide local managers with secure access to the local

information pertinent to their operation, underpinning the drive to maximise revenue and market share and minimise costs across specific routes.

Blundell explains, “ British Airways’ business goal is to broaden the decision making ability by providing pertinent information. Empowering people to make decisions on behalf of the company leads to better customer relationships. By making information available via the intranet they can ensure improved consistent customer service worldwide.”

‘

“ By analysing any problems with BUSINESS OBJECTS e have become one of the top rated European airlines for punctuality.

Conclusion:

British Airways remains cautiously optimistic about its future prospects.

However, it is

certain that considerably more work lies ahead if the airline is to succeed.

The FSAS

plan incorporated by BA resulted in considerable cost savings, and divestments also

raised funds to pay off debt. The goal of the FSAS plan was to achieve a 10%

operating margin and hence more recent cost cuts and job loses have been made by

Willie Walsh order to accomplish this.