

# Strategic management: strategic directions followed by virgin atlantic

[Business](#), [Management](#)



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1)Executive Summary This report aims to evaluate the current strategic directions followed by Virgin Atlantic. Initially we discuss the organisation's mission statement and identify how the vision of the company is reflected through the strategic objectives.

It is established that CSR plays an important role for Virgin Atlantic as it is seen to have principles and high standards on acceptable behaviour, BBC News (2009). External factors are evaluated using a PESTLE analysis and it is made clear that the Airline Industry as a whole is suffering financially in the economic downturn. With the well publicised fear of global warming and the level of emissions airlines are giving off is resulting in the government putting pressure on Virgin Atlantic and others to find ways of reducing their CO<sub>2</sub> output by increasing fuel costs, Virgin Atlantic (2009).

Social trends are examined to determine the appeal of air travel and why consumers continue to fly with luxury airlines like Virgin Atlantic over smaller no frills airlines. The financial performance of Virgin Atlantic is analysed over a 5 year period looking at key ratios to determine the sales and profitability of the organisation. These results are compared to British Airways financial figures as well as Ryanair's to get a better understanding of how financially secure Virgin Airline is financially in comparison to its competitors.

An analysis is then conducted of the organisations competitive strategy which identifies, using Porters 5 Forces, that Virgin Atlantic fall under ‘ differentiation focus strategy’ as they offer premium priced products for a high quality service. Results from Ansoff’s growth vector determine the strategic direction of the Airlines development. The airline’s growth remains competitive through demand in existing markets with existing products as well as newly developed ones.

The methods of development are identified as code-sharing agreements between different airlines, allowing them to make use of each other’s resources at minimum costs. It was concluded that, due to the success of Virgin Atlantic’s current 3 year strategic direction, the airline should extend this strategy. Other strategic concepts were recommended regarding the fight for climate change and the way in which the airline positions itself through branding.

2) Introduction to Company Virgin Atlantic was launched by founder Richard Branson on the 22nd June 1984 Virgin Airline (2009). . 1. The vision of the airline was to offer high quality services combined with good value for money. Working in Music industry for many years Branson himself knew little about the aviation industry therefore he used the advice of his partner, Freddie Fields to manage the venture along with his technical manager Roy Gardner Management Today (1998). As a result of working in the Music Industry Branson was all too familiar with celebrity obsessed culture and thus he packed the first flight was between London and Newark Liberty with some well known celebrities.

Virgin Atlantic credit the use of the famous faces seen travelling on the inaugural flight as one of the factors of success in launching the airline, Virgin Atlantic (2009). 2. 2. Virgin Atlantic employs a three year strategy which thus far has proved successful. The success has been down to their sound business model which is defined by their Mission Statement: “ To Grow a profitable airline, where people love to fly and people love to work. ” Virgin Atlantic (2009)

Low cost airlines offer a typically narrow service where as Virgin Atlantic, through their code-sharing agreements; position themselves as offering a broad range of exotic destinations for people who are willing to pay premium prices. This business model has the key understanding that the way in which the product is positioned and the experience provided travelling by virgin Atlantic, will ensure customers will travel again and again thus allowing them to achieve their long-term strategic objectives of increasing profits and shareholder values. 2. One of the key factors in the business model is ‘ how’ Virgin Atlantic provide a unique flying experience, virgin maintain this positive feeling with the friendly flight attendants and the positive attitudes they show customers. The airline ensures the happiness of staff with fair wage, discounts on fares as well as loyalty schemes. The most public display of loyalty towards staff was in 2009 when Virgin Atlantic employees were given 2 free flights to any of the airlines destinations as part of the 25th anniversary of Virgin Atlantic Daily Mail (2009).

This generosity towards the staff has the same principles applied by its airline services, the idea of luxury onboard the aircrafts and the knowledge

that you will be taken care of. 2. 4. Thomson and Martin (2005) believe that customers play a key part in an organisations business model as they are ones who the services are specifically tailored to. In the 80's when Virgin Atlantic's vision was launched, the glamour of air travel had distinguished and air travel was seen as an expensive means of getting from a to b.

People had forgotten what air travel was all about, and the ideal of jet setting across the world in luxury was seen available only to those who where famous. The vision introduced encouraged people to pay more but have better value for money and made the whole air travel experience pleasurable. Virgins Growth is testimate to how effective the initial vision of the company was and shows that their mission today is exactly what customers are looking for in a service provider. 2. 5. Corporate SocialResponsibilityalso takes a key stance in Virgin Atlantic's business model.

The company's strong stance in responsible business is heavily publicised by the media, especially when it comes to environmental factors. Richard Branson has publicly pledged to invest profits of his travel organisations into the research and development of alternative fuel and renewable energy Mallen Baker (2006). " Virgin Atlantic is committed to reducing our environmental impacts where we can by becoming a more efficient business, leading the industry to practical and technical solutions and engaging, inspiring and empowering our staff and customers to help us meet this challenge" Virgin Atlantic (2009). . 6. The airline was also the first of its kind to trial an alternative fuel which was created from a combination of coconuts

and Brazilian Babassu nuts, BBC News 2008. Virgin Airline also have strong policies on equality and avoiding discrimination, this was pushed into the media when 13 of the airlines staff were sacked after describing the passengers as 'chavs' on the social networking site Facebook, a spokesperson for the airline stated "It is impossible for these cabin crew members to uphold [our] high standards of customer service... if they hold these views." BBC News 2008. This very public stance on social responsibility, especially when it comes to environmental factors, enforces the public interest that Virgin Atlantic employ especially when it comes to decision making and setting their strategic objectives. Reidenbach and Robin (1995) have produced a spectrum of 5 ethical/unethical responses and I believe that Virgin Airline would fall under Ethically Engaged and, "Actively want to do 'the right thing' and be seen doing so"

The company's mission states that they want to be a profitable airline & their CSR stance assures the consumers that Virgin Atlantic have principles and although they want to be a profitable airline they will not achieve this strategic objective at the expense of the planet and the people who inhabit it.

3) External Factors There are a number of external factors which can affect not only the environmental stability of Virgin Atlantic but the attractiveness of the airline industry as a whole.

Such factors can be determined by conducting a PESTLE Analysis, a PESTLE Analysis is a business model designed by looks at 6 different factors (Political, Economic, Social, Technological, Legal & Ethical Issues) and aims to evaluate the impact these factors will have on the Organisation. 3. 1.

**Political & Legal Factors** The main political factors which affect the airline industries stability and attractiveness is the current tax policy employed by the government.

Due to the rapid decrease of sustainable fuels and with concerns of global warming stronger than ever the Conservative party plan to increase the Air Passenger Duty (APD) up to 113% by November 2010 if they win at the election, Virgin Airline (2009). This will mean an increase in fares thus affecting the attractiveness of the air travel & may have significant impacts on Virgin Airlines profits. Interest rates set by the government may affect any loans that the Airline have taken out.

The exchange rates on currency may also provide issues when the company need to trade currency for customers on board an aircraft moving between the uk and America etc. Legal factors which may affect the attractiveness of the airline industry would be legislation on health & safety, wages and airline regulations in terms of training and quality standards. Code-sharing agreements, which we have established plays a key role in the success and growth of Virgin Atlantic, may be put in to jeopardy if there is conflict between countries which could potential affect the air space in which Virgin Atlantic travels.

It would be important for the company to have alternative routes put in place allowing them to still get to their chartered destinations in case this type of situation were to occur. Starting in 2012, the EU union will require all airlines to hold emission permits in order to operate; this was designed as a means

of reducing the production of greenhouse gases. This is something which will effect Virgin Atlantic & they will have to do research into the costs of the permits & analysis how this will affect the company financially. 3. 2.

### Economic Factors

The economic factors affecting the airline industry as a whole would be mainly the current economy. With less disposable income the demand for travel has fallen The Times (2009), and the airline may to look at competing with low budget airlines in 2010. The business side of air travel is the most expensive to run and has been affected the worst with the rises in fuel costs Mintel Report (2007). Branson has stated publically that the airline would no doubt overcome the recession but that the first class aspect of air travel would dwindle, Daily Mail (2009).

The financial information reported, which will be addressed in the next section ' Company Financial Performance' , indicates that Branson's prediction is correct and that that Virgin Airline will remain stable despite the current recession. This is one such scenario which Virgin Atlantic must address and research in order to determine the environmental stability of the organisation and the ability for it to achieve the 3 year strategy in place. As a result of the recession, Virgin let go off 7% of all employees in 2009 and may have to consider the possibility of letting more go in 2010.

The airline is not alone as their main competitor British Airways let 4000 jobs go, Daily Mail (2009). 3. 3. Social Factors & Ethical Issues The main social trend which could impact the airline industries attractiveness would be



attitudes and emphasis on safety. After the terrorist attacks in September 2001, the thought of flying was unbearable to most. There is still the threat of terrorism and thus it's no surprise that many individuals are still concerned about their safety when flying.

Virgin Atlantic would have to make sure that they have procedures in place to deal with such situations and ease any concerns individuals have about flying. They have set up a course for those individuals who have a fear of flying which takes place in Local Airports Virgin Atlantic (2010). As previously stated there is an obsession with the celebrity culture and the ideal of traveling to exotic locations in luxury, going into the next decade it is important that this trend of social status remains important and 'popular' as this is the brand image which Virgin Atlantic is associated with.

If this social factor was to change it would severely impact the attractiveness of the airline industry and subsequently the demand for Virgin Atlantic's services would be affected. The main ethical issue which is affecting the attractiveness of the airline industry is the emissions let off by the aircrafts. Aviation is responsible for 2% of emissions worldwide and global warming is a huge issue in today's society, with many individuals dedicated to the social trend of 'going green' in a bid to save the planet.

Virgin Atlantic remain actively involved in the research and development of alternative sustainable fuels and have joined a voluntary agreement proposed by the airline industry to reduce emissions by 50% in 2050 compared to that of 2005 . 3. 4 Technological Factors Virgin Atlantic has

been at the forefront of technology, starting in the eighties when it was the first airline to have individual Televisions for its Business Class Passengers, Virgin Atlantic (2009). With technology in the aviation industry developing from year to year, from new air craft models which reduce emissions to efficient means of checking in customers and the great entertainment facilities on board makes air travel is very appealing. Virgin Atlantic offer great entertainment systems as well as spacious and luxury air travel in their Airbus A380, which is the world's first twin deck aircraft offering a fully functioning restaurant's and bar's, Boston (2009). This level of technology in the A380 sets the airline before its competitors such as BA and low budget airlines can simply not compete with the level of comfort provided on board.

#### 4) Company Financial Performance

Despite harsh conditions of the external environment, namely the recession, Virgin Atlantic have remained a successful and profitable airline. In this section, the financial performance of the airline will be analysed over a 4 year period and compared to its main competitor British Airways as well as popular low budget airline Ryanair. 4. 1. The first area we will look at is turnover. The turnover indicates the level of business that each airline has achieved over a yearly period, changes in turnover can be impacted by changes in external factors which result in a decrease of sales.

Virgin Atlantic's turnover is much less compared to their competitors. This is not a true indication of the financial performance of an organisation but the money they derive from sales can indicate the demand one airlines service over another. Although a company may have a high sales turnover, the real

profitability is determined by taking the pre-tax profits and dividing these by the turnover, Thomson and Martin 2005. 4. 2. Pre-tax profits To establish the financial success of the Virgin Atlantic we will firstly look at the pre-tax profits of the airline & that of its chosen competitors.

Pre-tax profits – Ryanair (thousand 000) Ryanair (2005/9) Pre-tax profits- British Airways (Millions ? ) British Airways (2005/9) They key factor to note in all three pre-tax profits charts is that the recession in 2008 has impacted both low frills airlines and British Airways. Both airline reported losses, the most significant being that of BA at ? 401 Million. Despite the external factor of climate change Virgin Atlantic has managed to not only sustain its financial performance but to almost doubled their pre-tax profits from the previous year, with recorded pre-tax profits of ? 68. 4 Million. 4. 3.

Profit Margin Virgin Atlantic is the only one to have maintained their profit margin over 2008. Ryanair & British Airways have made significant losses, whilst Virgin Atlantic's profit margin is growing. This just shows how much of an impact the economy has on the airline industry and means that Virgin Atlantic will have to keep cost of sales, administration, the selling and distribution costs of tickets down in order to remain profitable. 4. 4. Gearing Ratio The average gearing ratio in the airline industry is around 150% while some companies who are struggling in the recession are as high as 380%.

Another key statistic in determining Virgin Atlantics financial position is the gearing ratio. The gearing ratio measures the return on capital employed and indicates any financial risks. The principle is that the higher the gearing

ratio the more vulnerable the company is. Year Gearing (%) 2005 284. 76  
2006 209. 82 2007 199. 92 2008 189. 44 2009 183. 18 As you can see from  
the table above Virgin Atlantic is slightly over the recommended average in  
the aviation industry but their vulnerability and financial risk is decreasing  
year on year following the demand for their services. 5.

Competitive Strategy A clear competitive strategy is key in the success of an  
organisation meeting its strategic objectives. In order to establish Virgin  
Atlantic's Competitive strategy we will be using Porters Generic Strategic  
Framework, a diagram is shown below. According to Porters theory there are  
5 forces used to analyse the industry; 5. 1. " Threat of New Entrants. " As  
with any industry the more new airlines that enter the market, the more  
saturated it becomes. The most important factors in the airline industry in  
retaining loyalty are brand name recognition and frequent fliers point s.

Virgin Atlantic have spent the past 25 years building their polished and  
somewhat sexy image which is so appealing to flyers today. Virgin Atlantics  
strong brand name and discounts for loyal air travellers will give them the  
power to gain a customer even if its prices are slightly higher than its  
competitors. 5. 2. " Power of Suppliers. " Boeing and Airbus are two of the  
main air craft manufacturers. Their aircrafts are used by Virgin Atlantic and  
majority of its competitors, therefore there is no real competition between  
them. 5. 3 " Power of Buyers. Due to there being a low choice in suppliers in  
the aviation industry and taking into account that switching all Virgin  
Atlantics 38 air crafts to another supplier would be very costly, the airline do  
not have power over the suppliers. 5. 4. " Availability of Substitutes. "

Substitute products and services may be a concern of some airlines, especially smaller regional firms. However when it comes to Virgin Atlantic they have routes to some of the best locations in the world, of course there are other premium fare airlines which go to the same destinations but they will not have the same brand image as Virgin.

It would just be up to the individual travelling and probably concern the cost difference between Virgin Atlantic and its Competitors. 5. 5. “ Competitive Rivalry. ” There is a certain degree of rivalry in the aviation industry, especially between Virgin Atlantic and British airways. The affects of the competition are more clear in a economic turndown, for example BA’s loss of 401 million the year ending won’t be helped by Virgin Atlantic’s 25th Anniversary which was celebrated all though 2009, offering special promotions and discounted rates. 5. 6.

This Analysis would indicate that Virgin Atlantic would fall under differentiation focus strategy. By offering premium priced products for a high quality service Virgin Atlantic has an advantage over its competitors. Porter (1980) 6. Strategic Direction of Development The main strategic direction flowed by Virgin Atlantic in to increase the airlines market share. This growth has been the main strategic objective since 2008 when it was introduced in a 3 year plan. According to Ansoff’s Matrix there are four main types of growth, Ansoff (1987). Virgin Atlantic’s strategic direction would fall under both market penetration & Product Development.

The existing market which Virgin Atlantic operates in continues to have a growing demand for the current services which the airline offer. The growth in demand is due to several of the external factors which were discussed earlier, namely the social trend of luxury air travel and the idea of jet setting around the world with a company associated with celebrities and seen to be sexy. The growth in demand is identified in the increased ticket sales over the past few years despite the current recession which is affecting other premium airlines Virgin Atlantic continue to out-grow its competitors.

The strategic direction of increasing market share could not come at a better time for Virgin with British Airways in massive debt and in a very vulnerable position. It is no secret that if BA were unable to operate that Virgin Atlantic would see a significant increase in the market share. Despite the success of the existing services in the existing markets, it is well known that Virgin Atlantic drive for innovation in product development. As established in the external environmental analysis airline have been at the forefront of technology since they launched in the eighties.

By continually updating their fleet of air crafts with the newest gadgets and luxuries, the airlines passengers have a better experience on board and are more likely to travel time and time again with the airline. 7. Methods of Development 7. 1. In order for Virgin Atlantic Airline to grow it entered into a code share agreement with some of the larger names in the airline industry these included Continental Airlines & Jet Airways iloveinda. com (2009). Code sharing agreements are used by companies to make the most of each other's resources and according to the Air Transport Association, Code-

sharing agreements allow two (or more) airlines to offer a broader array of services to their customers than they could individually. These marketing arrangements enable an airline to issue tickets on a flight operated by another airline as if it were its own, including the use of its own two-letter code for that flight. These arrangements allow airlines to market expanded networks for their passengers at minimal expense” Air Transport Association (2009) 7. 2.

In 1999 Virgin Atlantic also partnered with Singapore airlines who now own 49% of the company, Richard Branson signed the deal as he believed it to be an effective way of offering their customers a wider range of destinations at competitive rates BBC News (1999). 8. Conclusions and Recommendations

The diagram created by Rowe et Al in 1989, can be used to determine Virgin Atlantic's Strategic direction and determines what type of strategy the airline should undertake going forward. Rowe et Al developed this model based on which he considered to be four important variables.

The financial strength of the airline and the advantage it has over its competing airlines makes up the internal strategic direction and the stability of the economy along with the attractiveness of the airline industry as a whole. Throughout this report, the strategic direction of Virgin Atlantic has been discussed and the methods of development evaluated alongside airlines financial performance, taking into consideration the external environment. As a result of this analysis and though Rowe et Al's Space Analysis we can conclude that the airline is not only using a aggressive strategy but that their approach is highly competitive.

The current strategy employed by Virgin Atlantic is very successful and is essentially the reason why the organisation has remained profitable in such times as a recession. I would recommend that Virgin Atlantic extend the current strategy over a longer period of time, all of the areas in this report echo the success of the strategy and how well it fits into the organisations business model. They must make sure that they continue to brand themselves as having a unique selling point with an emphasis on value for money in order to remain competitive.

Another recommendation would be to keep the economy boarding which they have on flights, i believe that if this element was stripped away altogether then the airline would further narrow their market further and reduce the potential market shares. With the voluntary target set in the airline industry on cutting emissions by 2050, I would encourage Virgin Atlantic to take a more public stance and be actively involved in the research and development of bio fuels by pairing up with the lead organisation. This would enforce the airlines stance of ethical issues regarding global warming.

The way in which the organisation brands itself, being sexy & tongue in cheek, has been constantly one of the most important factors in the airlines success. I recommend that message conveyed with the airlines '25 years still red hot campaign' is carried on throughout 2010. Page 12 References Airline Network (2007) ' Virgin Atlantic Passenger Traffic Increase' Online at <http://www.get-packing.com/news/flights/archives/august-2007/virgin-atlantic-passenger-traffic-increase.html> (Accessed 19th November 2009) Air Transport Association ' Airline Handbook, Chapter 2, Code Sharing' online at <https://assignbuster.com/strategic-management-strategic-directions-folloed-by-virgin-atlantic/>



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