

Iberia group



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1. Iberia Group

Iberia is Spain's largest air transport group and the fourth-largest in Europe. It is also the leading airline on routes between Europe and Latin America, with the most flights and destinations. And is member of Oneworld, a global alliance of leading airlines.

Company is in business from 1927. And is only European airline has posted profit from last 13 years. In 2008 its main activities;

Transport of passengers and cargo

Aircraft maintenance

Handling services in airports

It flies to more than 118 destinations in 45 countries. But it reaches 189 destinations in more than 70 countries with membership with Oneworld alliance and code sharing accords with other airlines.

World's 9th largest aircraft maintenance and engineering firm. In 2008, company completed deep inspections of 1,384 aircraft, 208 engines, 30 APU (auxiliary motors) and 68,396 components, among other tasks.

It offers its service in 41 Spanish airports. And has fleet of nearly 8,500 ground vehicles and employs more than 8,500 people. In 2008, it attended 223 airlines, 79.9 millions of passengers and about 420,000 aircraft, in Spain.

In 2008, 28.5 million people chose Iberia or its regional franchise partner for their air travel.

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1. 1. Iberia Shareholders

2. British Airways

On 25 August 1919, British Airways' forerunner company, Aircraft Transport and Travel Limited (AT&T), launched the world's first daily international scheduled air service between London and Paris. They completed its successive 90 years in airline industry.

British Airways is world leading and flagship carrier of UK. That fly to more than 300 destinations worldwide and company carried 33 million passengers in 2008/09. And it is also member of Oneworld a global alliance of leading airlines.

Company carried 777, 000 tonnes of cargo to destinations in Europe, the Americas and throughout the world. At the end of March 2009 Company had 245 aircraft in service.

2. 1. History

In 1924, Britain's four main fledgling airlines, which had by then evolved into Instone, Handley Page, The Daimler Airway and British Marine Air Navigation Company, merged to form Imperial Airways Limited. By 1925, Imperial Airways was providing services to Paris, Brussels, Basle, Cologne and Zurich.

In the mid 1930s, a handful of smaller UK air transport companies merged to form the original privately-owned British Airways Limited, which became Imperial Airways' principal UK competitor on European routes, operating out of another new airport, Gatwick. Following a government review,

Imperial Airways and British Airways were nationalised in 1939 to form British Overseas Airways Corporation (BOAC).

In 1972 Government announced its intention to merge BEA and BOAC to form British Airways. The British Airways Group was established, which would eventually result in BOAC and BEA being dissolved on 31 March 1974 upon the formation of British Airways.

In 1976 World's first passenger supersonic services were inaugurated simultaneously by British Airways to Bahrain (Concorde G-BOAA) and Air France to Rio de Janeiro via Dakar. Concorde flights to Washington Dulles commenced, but problems with noise levels delayed operations to New York's JFK airport.

In 1984 British Airways became PLC. And in 1987 British Airways privatised and completed merger with British Caledonian which was financially troubled that time.

In 2000 British Airways completed its acquisition of 9% of the shares in Iberia, at a total of Ptas41 billion (£155m).

In 2003 British Airways withdrew Concorde, signalling the closure of the world's only supersonic passenger services. The last scheduled commercial flight was BA2 from JFK operated by G-BOAG.

2. 2. British Airways Shareholders

3. Destinations of Iberia and BA

3. 1. Iberia Group Destinations

Spain 38

	Destinations
Europe	47Destinations
Africa	9Destinations
America	22Destinations
Near and Far East	1Destinations
Oceania	1Destination
Total	118Destinations

3. 2. BA Group Destination

UK	9Destinations
Europe	67Destinations
Africa	15Destinations
America	38

Destinations

Middle East and South Asia	12	Destinati on
Asia/Pacific	7	Destination
Total	148	Destinations

3. 3. BA and Iberia Fleet

Iberia British
Aeroplana Airways

Airbus A-
340/600 12

Airbus
A340/300 21

Airbus A-
321 19 11

Airbus A-
320 45 35

Airbus A-319	22	33
Boeing 747		55
Boeing 777		42
Boeing 767		21
Boeing 757		15
Boeing 737		22
Avro RJ100		9
Avro RJ85		2
Total	119	245

According to 2009 3rd quarter report, Iberia operating with 114 Airbus fleet.

3. 4. Iberia and BA Facts and Figures of 2008 and 2008/09

Iberia Iberia BA
 and BA Financi Financi
 al Year al Year

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	Ended on 31 Dec. 2008	Ended on 31 Mar. 2009
Noncurrent asset	2450	8142
Current asset	3184	2346
Total asset	5634	10488
Equity	1564	1846
Noncurrent liability	1765	4500
Current liability	2305	4142
Total Equity and Liability	5634	10488
Revenue	5223	8992

Total

recognis

e (236) (358)

income/(

Expense)

Fuel cost 1666 2969

Pensions (307)

Number

of

21578 44987

employe

es

3. 5. Iberia and BA Accumulated Facts and Figures of 2009

	Iberia	BA 2nd
	3rd	Quarter
Iberia	Quarter	Statem
and BA	Statem	ent 30
	ent 30	Sep. 09
	Sep. 09	

Noncurre

2400. 1 8074

nt asset

Current

2034. 3 2354

asset

Total
asset 4434. 4 10444

Equity 1582. 5 2161

Noncurre
nt 4652

liability

Current
liability 3631

Total
Equity 10444
and
Liability

Revenue 3333. 0 4102

Total
recognis
e (181.
9) (208)
income/(
Expense)

Net Debt (1520.
8) (2362)

Fuel cost 889. 6 1228

Pensions (2633)

BA has 2 pension schemes called Airways Pension Scheme (APS) and New Airways Pension Scheme (NAPS). That in the past six months, the surplus in APS scheme fell from £860m to £27m, while the deficit in the NAPS scheme ballooned from £1. 2bn to £2. 7bn.

However, Iberia says it can pull out of the deal if BA fails to resolve its pension deficit problem.

4. SWOT Analysis

SWOT is strategic analysis tool which help us to scan micro and macro environment of an organisation. Which includes; Strength, Weakness, Opportunity and Threats. Where Strength and Weakness is called micro environment factors and Opportunity and Threat is called macro environment factors, in which Strength and Opportunity is helpful to achieve company goals and Weakness and Threats is harmful to achieve company goals.

5. PESTLE Analysis

PEST analysis stands for Political, Economical, Socio-culture, and technological and is framework of scanning tool for macro environmental forces of strategic management. Which is later extended by Legal and Environmental forces and called by PESTLE. This can help to start new investments or business.

Political: How Government get involved in business to make certain change in laws. Political factors which has effects on any organisation or business such as Political Stability, Tax Laws, and Labour Laws.

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Economical: Economical factors such as economical growth, interest rate, exchange rate or inflation rate have major impact on policy making on decision making that how to run business in future.

Socio-Cultural: It includes cultural aspects how people will behave towards product. Such as health consciousness, population rate, religion, or age.

Technological: Technological aspects includes; research and development, new emerging technologies. Furthermore it can have affect cost, quality and lead to innovation.

Legal: factors include discrimination law, consumer law, employment law, and health and safety law. These factors can affect how a company operates, its costs, and the demand for its products.

Environmental aspects includes; Weather, Climate or Climate change. It may affect such as tourism and farming. Growing awareness to climate change is affecting companies. It both can create and destroys existing market.

6. Iberia

6. 1. Strength

Iberia is Spain's largest air transport group and the fourth-largest in Europe. And is member of Oneworld, a global alliance of leading airlines. It flies to more than 118 destinations in 45 countries. And have 119 plains fleet.

In 2008, 28. 5 million people choose Iberia or its regional franchise partner for their air travel.

Iberia is the first European airline and third in the world best prepared to face the crisis, according to the “ Top Performing Companies” ranking compiled by Aviation Week.

6. 2. Weakness

Iberia’s cabin crew have just finished one round of strikes and are promising more in a dispute over changes to their jobs. BA’s attempts to cut cabin crew and freeze pay could also result in strikes. Ground staff and pilots are equally willing to use industrial action to get their way.

6. 3. Opportunity

Iberia is going for merger with BA which would save them 400 million Euros yearly. Increase in technology is playing important role such as online ticketing, and online check-in system is saving time and cost on operations.

On 5 February 2006 the new Terminal 4 at Madrid Barajas was given over to Iberia and the Oneworld alliance members. This provided much-needed expansion capabilities for Iberia. Iberia is responsible for around 60% of the airport’s traffic.

6. 4. Threats

Credit crunch and increase in fuel prices and global warming are creating threats to airline industry. Because of credit crunch people are focusing on savings. Cheap airlines emerging which offers good services to travellers and people like to travel with these airlines.

Climate change is another factor people are very conscious about environment friendly products. And airlines have big contribution in increase of CO2 emission in world.

6. 5. Political/Legal

During the dictatorship of Miguel Primo de Rivera, the aviation companies in Spain were combined and become state-controlled as a general interest public utility, coming into effect in early 1928. The airline was nationalised on 30 September 1944 and became part of INI. In 2001 Iberia once again privatised and listed on stock exchange.

On January 9, 2009 the European Commission's Competition Service authorised BA and Iberia merger.

6. 6. Economical

Economical situation on the globe is not good it hits worst every business specially banking sector and airline industry. Because aircrafts is expensive mean of travel and people are pointing their attention to saving. Holidays operators such as XL tour operator were filed bank corrupt due to credit crunch and high fuel prices.

Iberia worst hit by credit crunch it post 236 million Euros and 182 million Euros net loss respectively in financial year of 2008 and till 3rd quarter 2009. And Iberia and BA are trying to merger and save more than 400 million Euros per annum from their operations.

6. 7. Socio-Cultural

Iberia is flagship carrier of Spain and assumes its social responsibility by converting social action into a priority strategy through projects relating to the access to the transportation of passengers that require any manner of assistance and the giving over of hold space to transport humanitarian aid. During 2008 around EUR 3 million were earmarked for social action projects.

It should be noted that Iberia continues to encourage its customers to participate in projects of this nature through the agreements entered into with the Spanish Red Cross and the Special Olympics and to involve its suppliers in social action projects such as the well-established collection of funds during the Christmas Campaign.

6. 8. Technological

Iberia has always been among the first to pass on to its customers any improvements offered by the new technologies to improve their comfort and save time. Electronic tickets; online check-in through a simple, procedure on Iberia. com; auto check-in machines at the main airports; an SMS information service of scheduled times and arrivals of flights via mobile.

Apart from the auto check-in (check-in plus seat reservation) to more than 70 destinations, other advantages include the possibility of buying shuttle tickets, consulting bookings on any Iberia flight or accessing the Iberia Plus point programme. In 2008 close to 3. 5 million boarding cards were issued by using auto check-in online facility.

6. 9. Environmental

According to the Intergovernmental Panel on Climate Change (IPCC), the aviation sector contributes only 2% of the total CO 2 emissions generated by the consumption of fossil fuels.

Internal audits were conducted in 2008 to check adequate environmental management in the areas with significant environmental impacts. A total of 39 internal environmental audits were made in Iberia during 2008, entailing the equivalent of 42 days' work.

Iberia currently has a very modern fleet of aircraft. Just in the past five years it has retired 76 aircraft and incorporated 60 new ones. Which reduce fuel consumptions by 20% compared to earlier generation aircrafts. Company made 1 million Euros environmental investment.

7. British Airways

7. 1. Strength

Strength of airline is bringing perfect service in new fleet. And best aircraft have to provide comfortable service to customers. Level of BA operations is amazing and BA gets an advantage on its competitors to provide wider variety of service to travellers.

BA has 245 plains of fleet and provides services to 550 destinations around the globe with code sharing and as member of Oneworld alliance and in 2008/09 company carried 33 million passengers.

BA has its own terminal at London Heathrow Airport which gives them competitive advantage to its main competitors such as Virgin Atlantic airline.

7. 2. Weakness

British Airways opened officially terminal 5 on 14th march 2008 but the facilities for staff and customers were unorganised. Staff faced problems for car parking that effect the work duties and other side the technical problems with bag loading in the flights.

BA still having problems with missing baggage. According to AEA BA missing baggage ratio is 15. 6% per 1000.

BA pension schemes is big issue for management they post £2. 7 billion loss in last financial year for pension scheme. And Iberia SA told them if BA will not control Pension losses they will discontinue merger process.

7. 3. Opportunity

BA is going for merger with Iberia SA which would save them 400 million Euros yearly. Increase in technology is playing important role such as online ticketing, and online check-in system is saving time and cost on operations.

BA own terminal at Heathrow Airport is helping to increase flights and company is able to provide more relaxed environment. The luxurious lounge has also been well received with an increase of 20% for customer satisfaction. Around 21 million people used terminal during the year.

7. 4. Threats

BA has threats such as unreasonable increase in competition, oil prices, credit crunch, and environmental changing or global warming.

BA post £358 million and £208 million net loss respectively in 2008/09 financial year and in second quarter of 2009 due to credit crunch and increase of oil prices.

Carbon emission is big issue for airline industry. BA is leading airline in the world and had carbon footprint of 17. 6 million tons in 2008.

So many other airlines are offering similar products in cheap prices. In UK Virgin Atlantic Airline is main rival for BA which is trying to have its own terminal at Gatwick Airport.

7. 5. Political/Legal

Government review, Imperial Airways and British Airways were nationalised in 1939 to form British Overseas Airways Corporation (BOAC).

In 1972 Government announced its intention to merge BEA and BOAC to form British Airways. The British Airways Group was established, which would eventually result in BOAC and BEA being dissolved on 31 March 1974 upon the formation of British Airways.

In 1984 British Airways became PLC. And in 1987 British Airways privatised and completed merger with British Caledonian which was financially troubled that time.

On January 9, 2009 the European Commission's Competition Service authorised BA and Iberia merger.

7. 6. Economical

Economical situation all around the globe is not good. Organisations are having problems with their finances and people are losing jobs companies are spending less for their survival in this credit crunch. People have not savings to spend on holidays. if people have to travel they are using other sources of transports or other cheap air lines.

That is why BA posts a net loss of £358 million and £208 million in current financial year in 2nd quarter. And BA and Iberia are trying to merger and save more than 400 million Euros per annum from their operations.

Interest rate is historically low in UK by Bank of England as 0. 5%.

7. 7. Socio-Culture

Our Community Learning Centre close to our Waterside headquarters at Heathrow – has welcomed nearly 50, 000 young people and adult learners on a range of education programmes since its opening in 1999.

Last year's BA Fun Run raised in excess of £55, 000 for Cancer Research UK. BITC reported our total direct and in-kind donations for 2008/09 at £5. 4 million (2008: £5. 7 million). Of these, direct charitable donations amounted to £444, 000 (2008: £398, 000).

7. 8. Technology

BA does around 57000 surveys every month to get best knowledge what their customers want from them. Almost third of airline booking are now made online. With almost half of all Europe from UK site. Travellers can have access to their bookings or any changes via their mobile phone. They can check-in and also access real time arrival and departure information with online system. System is saving time as well as money of travellers and company.

7. 9. Environmental

Climate change is an issue of huge importance to us and company have long term commitment to address it. Company climate change programme covers four main areas:

- Policy measures to curb emissions growth
- Voluntary carbon offsetting
- Fuel efficiency
- Support for scientific research

In March 2009 company carbon offset scheme became first airline offset product to meet the requirements of the UK Governments Quality Assurance Scheme. Company target is reduce company net CO2 emission by 50% by 2050. Meeting this target will require investment in new technology, sustainable bio-jet fuels and in cost-effective emissions reductions in other sectors of the economy through the creation of effective global carbon trading markets. Company continue to look for ways to improve fuel efficiency and over 600 projects have so far been assessed. Of these, 55 have been implemented.

8. Corporate changes

On July 29, the Board of Directors of Iberia resolved to begin talks with British Airways on a potential merger between the two airlines through an exchange of shares. In relation to this transaction, Iberia acquired a strategic ownership interest in the share capital of British Airways in 2008, which represented 9.99% of British Airways share capital at December 31. Both companies continue to work on the complex process of negotiating an agreement and planning the transaction.

On January 9, 2009 the European Commission's Competition Service authorised this merger.

9. Acquisition and Merger

Merger is a complete absorption of one company by another, wherein the acquiring firm retains its identity and the acquired firm ceases to exist as a separate entity.

(Ross, Westerfield, and Jordan. 2007)

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Acquisition is generic term used to describe transfer for ownership. Merger is narrow, technical term for particular legal procedure that may or may not follow an acquisition.

(Reed and Lajoux. 1999)

9. 1. Merger of Iberia and BA

The proposed merger will result in the creation of a new holding company (TopCo) that will own both the existing airlines and whose shareholders will be the current British Airways and Iberia shareholders. Under the terms of the proposed merger, British Airways shareholders will receive one new ordinary share in TopCo for every existing British Airways ordinary share held by them and Iberia shareholders will receive 1.0205 new ordinary shares for every existing Iberia ordinary share held by them. On the basis of this exchange ratio, and after cancellation of the treasury shares held by Iberia and prior to the cancellation of the cross-shareholdings held by British Airways and Iberia in each other, British Airways shareholders will hold 55 per cent of TopCo and Iberia shareholders will hold 45 per cent.

Iberia or TopCo will not provide any guarantee or use any cash or credit facilities to fund the

BA pension schemes. Merger is expected to be completed in late 2010.

9. 2. Benefits of Merger

- The combined firm would have 419 aircraft flying to 205 destinations, and strengthen the Oneworld alliance. British Airways' customers will gain access to up to 59 new destinations, of which 13 will be in Latin America, while Iberia's customers will gain up to 98 new destinations

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across the British Airways network. They will also be offered better frequencies and connections, more competitive prices, access to more VIP lounges and enhanced frequent flyer benefits

- BA and Iberia said it would save them a total of 400m Euros (\$594m; £358m) in costs a year.
- The new group will combine the two companies' leading positions in the UK and Spain and enhance their strong presence in the international long haul markets, while retaining the individual brands and current operations of each airline.
- Enhanced customer benefits with a larger combined network for passengers and cargo and continued investment in new customer products and services.
- Highly complementary network fit worldwide, in particular combining British Airways' strong presence in North America, Asia-Pacific and Africa with Iberia's strong Latin American presence.
- Greater potential for future growth by optimising the dual hubs of London and Madrid.
- Enhanced scale and ability to compete with other major airlines and participate in future industry consolidation.
- Annual synergies of approximately €400m at budgeted exchange rates are expected by the end of the fifth year after the completion of the merger at cash cost of up to €350m. The synergies will be incremental to the existing value from the airlines' joint business between the UK and Spain. Approximately one third of the synergies are expected to be revenue related (joint selling, network and revenue management

benefits) with the balance coming from cost synergies in areas such as IT, fleet, maintenance and back office functions.

- Strong group management team to maximize the combined group's earnings potential and deliver synergy benefits while maintaining localised operational focus and accountability.

10. Stake Holders

- BA CEO Willie Walsh said “ This is good news for BA, our customers and our shareholders; we recognize we have strong brands and these will be retained.”
- Iberia CEO Vazquez, who will become chairman of TopCo, said “ The merger expected synergies should help both carriers return to profitability. This project represents a very significant potential benefit for the stakeholders of both companies.”
- Steve Turner, Unite national officer for civil aviation, said “ We need assurances from the outset from British Airways and Iberia that compulsory redundancies will be avoided and that the new airline will be the best in the business in terms of passenger service. It is imperative that both companies sit down as soon as possible with the unions here and in Spain to discuss how jobs and standards can be safeguarded.”
- The main pilots' union has given the agreement a cautious welcome, with the warning to act further that the announce parity between the two airlines must be “ real”.
- Spanish cabin crew, who are currently involved in strike action, have demanded that “ two plus two equals four” in terms of