

British airways analysing financial and non financial indicators tourism essay

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



British Airways is considered as one of the largest international airlines of United Kingdom. British Airways Plc and many other subsidiaries companies make the whole British Airways group. Currently, British Airways (BA) covers more than 550 destinations. According to the data of the year 2008/09, more than 34 million passengers have travelled through British Airways. British Airways main business operating hub location is London's Heathrow airport which serves the company with large geographical area. British Airways is also listed in stock exchange of London.. (Company Information, n. d.). The following report will analyse and then evaluates both the indicators of the British Airways ie, financial as well as non-financial by making it compare with the performance of other company, which is Dubai based named as Emirates Airlines. Talking about Emirates Airlines, being launched in 1985 and since then shown the signs as of one of the fastest growing airlines of the world's airline industry. Currently, the company covers more than 100 different destinations throughout the world. (The Emirates Group, 2009). Further in the report the evaluation of the performance of both these companies is being done by using ratio analysis and there will also be discussion about the financial performance trend analysis of both the companies in the last few years. This report will also look at the managerial and non financial challenges faced by both of these companies using SWOT analysis, and then talking about the challenges and solutions for those challenges. The last section of this report will discuss and analyses the comment by John Rishton due to adoption of IFRS and also look at the differences between IFRS and US GAAP.

Section B

The following paragraphs will cover the changes and the financial pressures recently faced by the airline sector. According to keynote report, Factors like increase in the prices of oil during first half of 2008 which seriously affected the operating costs of airlines, then the impact of global recession made the condition even worse as affecting the number of passengers and thus decreased the demand for air travel globally. In response the different airlines companies have abandoned those routes which were unprofitable and also cut down the un-necessary costs.

In such a difficult phase of the airline sector, the companies must understand that how its' customers are rephrasing value and their reaction in the period of recession, instead of cutting down on the budget which they have planned for the market research. Now we will discuss specifically about the British airways and Emirates airlines, also will consider the different financial and managerial challenges that are faced by the above two companies. SWOT analysis is used as tool to clarify the difference between the both the airlines.

SWOT analysis

Strengths

British airways made a strong brand identity as United Kingdom's leading airlines because of trust and loyalty being showed by it's customers. Strong brand identity also brought advantages of economies of scale. There is being a new subsidiary launched by British airways named as, Open Skies, which offers only business class for the traffic between U. S and major European

countries. British airways has got huge capacity for it's air planes because of it's main operating base hub ie, at Heathrow airport and With the proposed merger with Iberia, British airways is aiming to become second largest airline company after Air France of Europe. British airways offers different loyalty programmes for it's customers as to make sure the again travel from their airlines only.

On the other side Emirates airline has made it's brand strong in the marketplace using different advertisements and many sponsorships. One of the main strengths of emirates airline is having its' focus on diversified market and the entrance into the cargo shipping proved very beneficial for the company. Emirates airline has made it's corporate culture by listening and identifying the needs of it's customer. Emirates also has low cost, which is around 30% less than its' European competitors. With the opening of emirates terminal 3 at Dubai international airport recently and the continuous ability to renew with improvement in the service gives the emirates airline the strength edge over it's competitors. Tim Clark who is the president of emirates airline, stated that the past results of the airlines have exceeded above expectations despite of the increase in jet fuel prices for emirates airlines from US\$1. 68 upto US\$2. 78 per gallon by the end of the year.

Weakness

With the opening of new terminal 5 at Heathrow airport by the British airways, the company faced problems with training of staff, which led in flights being cancelled, complains of missing luggage. Moreover the rising

fuel prices led to increase in ticket prices. The slowdown of both the UK and US economies has affected British Airways as the company has become very vulnerable to financial instability. The bankruptcies in the US banking sector decreased the number of premium booking passengers in British Airways heavily. The route of Heathrow and New York is having huge traffic of passengers and forms an important part of British Airways' earnings. Therefore, the drop in the bookings of premium class affected the profitability of the company. British Airways also suffered from increased non-fuel costs like from staff and the landing charges.

For Emirates Airlines, there is some weakness also associated with it, like it is not being successful in all of its diversification and approaches, which has emerged as a weakness of the company. Analysts have blamed the company for too much emphasizing on high-end acquisitions and diversifications in spite of getting the type of results from such decisions. As the U.S. is a major market for the airline industry and Emirates Airlines does not cater to many places in the U.S., which is also a weakness for the company.

Opportunities

If British Airways will fully acquire the Iberia Airlines with currently 13% share, then it will be in the list of the world's biggest airlines having approximated combined stock market capitalisation worth of EUR 5.5 billion. There is an opportunity for the British Airways to expand more in emerging markets like Middle East Region, India, and China. Another opportunity for British Airways is to now improve the operating conditions of its terminal 5 at Heathrow airport. The company should focus on minimum cost of travelling

to fulfil customer needs. With the increase of fuel efficient aircrafts of British airways it can minimize the environmental damage, as protection of environment is emerged as an important issue throughout the world. The company should also see an interest of customers towards new places and develop new routes wherever possible.

On the other hand for emirates airline the opportunity lies in which, it can use it's well developed infrastructure business to go into the new emerging markets where internet adoption is not very well developed. Same as for the British airways, there is also an opportunity for emirates to introduce new routes by observing the interest of customers. As also Dubai and the middle-east region is more advancing for tourism and commercial purpose enables emirates airline to grow. Emirate airline does not pay income tax so this also gives a tax benefit to it. This saves around \$250 million of money per year. Also due to close proximity of Dubai from Indian and Pakistan gives a chance to the airline to access hugely available cheap labour. The benefit of cheap labour in the emirates airline can be seen from the figure as from the total operating budget of the company, the cost of labour accounts upto 18% which is very less as compared to Lufthansa airline having 27% and united airlines with 29% of cost of labour.

Threats

The current threat to British airways is from current economic slowed down, increased fuel prices and weaker pound. The global recession has severely affected air transportation. The travel and tourism industry is moving towards including more green practices. There is pressure from European

Union on all the airlines companies to limit carbon emissions Across EU. After the events of 11 September 2001, the security measures have been more tighten by the airline companies. There is also strong competition from low cost airlines, cruise and rail transport that constitutes a bigger share in travel market. Low cost carriers are increasingly looking for new routes for customers with affordable ticket price. Another matter of concern for British Airways is the trade union power. The trade union already did many strikes in august 2004 and 2005. Cost of fuel is also can be at risk as the political situation in Iraq is supporting the rise of oil prices, which will result in add up of another £100 million to the cost of British Airways.

Whereas, there is severe threat on emirates airlines also from it's competitors naming Qatar airways and Etihad airways. Due to political instability in middle-east could lead to have a negative impact on emirate airline. Although the cargo commercial and passenger segments of emirates airlines have managed to achieve their targets, but increasing oil prices affected last quarter net income. As more desire of commodity trading affected oil prices due to brokers were not revealing the actual figure of shortage of raw material.

4 Challenges:

There are some of the challenges still left out to be tackle by the BA at the time of developing its climate change programme. As the company operate in environment which is uncertain and political environment is just a part of whole environment but it gives challenges like of changing climate. BA has taken various initiatives to face & solved these challenges right from

developing in-depth understanding on how to face these challenges, keeping debate with government and asking for their cooperation. (British Airways SWOT Analysis, 2006).

BA had to face many threats from competition besides the security threats like after the incidence of 9/11 terrorist attack, as its been considered as amongst the world most profit making airlines so for them to lead the industry the competition becomes more stiff for that they not only have to face threats like escalating fuel cost but also have to operate with low cost. BA has been helped by keymetric with 2006 transformational online programs to save nearly about 38 millions.

Operating profit has gone down to 80 percent which shows sheer and utmost decrease due to the weak customer confidence and thus reducing the traffic volumes. Challenges are mainly face due to the so many cost which has become hot air balloon and going high, if busted will not beneficial for the company. The cost balloon include so many costs like right from fuel cost, employee cost, cost of engineering, landing fees and besides this, also includes more operations costs due to delay in shifting to terminal 5 like, cargo handling costs, trucking charges, cost of ground equipments, IT and strong euro rate etc. Whereas, Emirates airlines firstly penetrated the market by launching it' s routes to the places in west Africa like in Nigeria and Ghana altogether. To sustain in to the market and feel the presence in these two countries there is also a challenge to be able to handle many multilingual issues and the problems with double byte sites. As emirates is present internationally, to manage it's data which is globally spread through internet,

the company took the decision of spreading out SDL Tridion's content for management solution. With such a decision enabled the Emirates, to cater to wider and variety of audience. As now the customers from all over the world can access to common information available to them. (Simon, 2007)

Solution:

Aviation industry requires huge sums of investment to operate and it adds risk to the return as well. The main money source of income for firms is shareholder. BA secures its position in the world aviation through focusing its aim towards its prospective shareholders and product betterment with handing cost efficiently. BA aims to achieve unique culture in airline by focussing towards customer and their requirements. BA believes that, differentiating their strategy from their competitors will bring the huge market. After being loosed the battle in to the business class which has been collapsed, after their position has been taken over by Silver Jet Airlines as a business class leader. But after this move in the aviation industry, British Airways took some good decisions like purchasing of Lavion Paris Airline, which was a quiet successful for BA. British Airways is always prepared to the change according to the environment and that alo shows in their course of planned action. BA has released the Terminal 5 which was going through good functioning with 6 million passengers (Marzouqi, N. D.).

Emirates on the other hand, had find out a niche for itself as a route for success and not in the way of following others. Unlike BA, emirates was not very much affected by 9/11 incident and also with decline of profit levels, seat factors the company managers didn't shake and through their belief in

their company and dedication took them out in such a crisis situation and thus, they were remained profitable. Whereas, other airlines were reducing and laying off their workforce so as to cut down the cost but, emirates didn't do this and their unique working paid off. (Sull, 2005)