

British airways internal and external environment

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



British Airways has chosen as its competitive strategy to be focus differentiated. This is supported by the fact that since the mid 1980s the company determined that they needed a more dynamic, customer-focused and service driven culture. Furthermore, the company stated in its 2008/2009 annual report that its objective is to be a high-performing, market-focused, global premium airline. Among its objectives, it wants to be the world's leading global premium airline; be the airline of choice for longhaul premium customers; and deliver an outstanding service for customers at every touch point.

Moreover, in order to analyse if the company is supporting its strategy, it is important to analyse its value chain and how the company can create value to its customers.

In its operation, B. A is outsourcing some activities, for example catering, therefore they can focus on their core business, and also they can save costs with employees and avoid problems with strike. (Guys on this point, reviewing the case study, that the franchises do not contribute to support their strategy of differentiation). B. A has also created a subsidiary OpenSkies to be more competitive in the transatlantic routes, due to the fact of being a new company, they can hire new employees with different salaries and benefits from B. A.

B. A has also created the Terminal 5 which is very modern and with a lot of technology, therefore they can reduce costs mainly with employees and it also a mean to reduce the problem of possible strikes. This terminal does not

depend too much on employees force. Furthermore it helped the company to improve its efficiency and offer better service.

On services, the company has invested to achieve its objective of serving outstanding services. Some examples are a Club World Cabin, which offers more comfort and privacy, on all its Boeing 747 and on half of its Boeing 777; Two-by-Two seat configuration in its Club Europe; Galleries lounges at terminal 5 and 3 in Heathrow, Milan, Vancouver and Johannesburg; Check in from mobile and PDA; In flight entertainment system.

Its Human Resources activities can represent a critical aspect from its value chain. In one hand, the company has invested in world-class hospitality and customer service training (annual report); on the other hand to support its objective of reducing costs, the company has progressively cut the number of employees and their benefits (such as reduction on their pensions), which has generated a turbulent relationship with its employees, mainly with the trade unions. As an example, due to the 5000 jobs' cut in its backroom operation, the cabin crew went on strike in August 1997.

They are reducing the pensions, they are hiring new employees with different salaries which create employees conflicts, affect motivation and they have strikes.

Firm Infrastructure: They changed the management style in the mid 1980 to be more flexible. However, more recently they are becoming more toughened due to the competitive. They are trying to manage the efficiency of the employees with the clocking-in system; they are also trying to reduce

absenteeism. Apart from this, employees felt bullied. Therefore, it seems to be more autocratic.

We can also support this with Terminal 5, they just decided to start the operation but employees were not prepared.

Strategy Sustainable - it is not sustainable

The company is focusing on reduce costs and maximizing profits to deliver the results expected by the shareholders. However, on the other hand, this strategy is impacting the employees. They are reducing the pensions, they demand more performance, they don't want to give pay risen, they want to reduce the number of employees, thus this will impact the quality of the service. Therefore this does not support the strategy.

Evaluation of Strategy:

Primary evaluation index is performance if it has grown and if it has been profitable;

However Rumelt indicates three questions to evaluate depth the strategy, to appraise more fundamental factors and trends which will guide the company for success:

Are the objectives appropriate?

Are the major policies and procedures appropriate?

Do the results obtained confirm or refute critical assumptions on which the strategy rests?

The strategy needs to be consistent (goals and policies); consonant (it needs to represent an adaptive response to the external environment and critical changes); it needs to create competitive advantage and it needs to be feasible according to resources.

We have set our sights on being the world's leading global premium airline.

We have five key goals. They are to:

- Be the airline of choice for longhaul premium customers;
- Deliver an outstanding service for customers at every touch point;
- Grow our presence in key global cities;
- Build on our leading position in London; and
- Meet our customers' needs and improve margins through new revenue streams.

Background and Introduction

British airways were founded as aircraft transport and travel (AT&T) in 1916, and soon on after the World War I the first international scheduling air service were launched between London and Paris. 1939 its principal competitor were Imperial Airways and the government nationalized both company from British Overseas Airways (BOAC). The BOAC were operation just in Long Haul flight and for short haul another new company were operation, British European Airways (BEA). In 1974 after the BOAC has a great knowledge about long Haul Flight (US, Japan, and so on) and BEA has a great knowledge about short haul flight the both companies merger, became the British Airwyas. (DataMonitor, 2009).

Business agreement between BA & AA & Iberia - 2008

British Airways is one of the world's leading scheduling premium international airlines, during FY2009 British Airways earned £8 billion in revenue, down 11% on the last year. Passengers represent 87% of the revenue, 7% Cargo and 6% form other activities, (annual report BA, 09). With 245 aircraft makes one of the best fleet services in actuality. British airways serve more than 300 destinations worldwide. The company carried more than 33 million passengers and 777, 000 tonnes of cargos destinations throughout the work during fiscal year 2009. British airways also provides another types of services to other airlines including cargo handling at airports, airframe maintenance, computer and communication services and consultancy services. (datamonitor, 2009).

British airways has a objective to be the biggest airline company in the world, and the airline industry is consolidating at an accelerating pace. In order to do this, merger with Iberia and plan to join business with American Airlines are examples of the era for international aviation. But these deals are always in focus on benefit its costumer. (Annual Report BA, 2009)

British Airways during March 2009 launched a low-cost airfare sale with price starting to \$478 between London to New York and also develop its popular "Europe for Free" that is a program offering low-cost fares and two free hotel nights in same seven selected cities on the Europe continent, (datamonitor)

Appendix 01 -Timeline British Airways

Macro environment Analysis

According to Lancaster (2008) companies are inserted in a macro environment composed by different factors or forces which have an impact on their operations. Some of these factors are closer to the company such as suppliers, intermediaries, distributors and so on, which he denominate proximate macro environment. There other factors have a wider prospect, such as legal, cultural, economic, so on, but can also impact companies results.

Political Factors

Almost every aspect of running an airline is governed or influenced by tight regulatory controls. This varies from the routes companies can fly, the business partners they can cooperate with, the airport slots they can use, the fares they set and the infrastructure costs they pay. Strict rules also govern safety and security and the management of their environmental impact. (XXXXX)

Terrorism is another political problem which affects companies, one example are the attacks which occurred in the U. S in 2001, which reduced the demand for flights and also demanded from companies more investments on security measurements and policies to rebuild consumers confidence. (XXXX)

Economic Factors

Airline companies were direct affect by economic recession when in 2008 were the worst experience has ever faced in especially US and Europe. The global recession has affect in both cases passenger and business people in air travel. This aggravated its pension deficit and it also impacted its demand

because many companies are trying to reduce the costs with travelling; instead they are trying to use communication technology as teleconferencing. Although the price oil has fallen from 2008 were the oil price was \$147 a barrel. (Key data)

Appendix 2 - UK residents' visits overseas by air by Country visited (000)

Currency changes are another problem. For BA the pound weakens impacted its costs due to many of them occur in dollar or euro.

Other factors which can impact either B. A costs base or profits are oil prices fluctuations and increase unemployment which impact consumer confidence.

Social Factors

Ageing fastest increase in the "oldest old"

Population by age, UK, 1984, 2009 and 2034

The graphic above describe how the UK trend populations are going, over the last 25 year the people aged 65 has increased from 15% in 1984 to 16% in 2009, increase of 1.7% million people, in other words, UK population is ageing. On the same period the young population has decreased from 21% to 19%.

<http://www.statistics.gov.uk/cci/nugget.asp?id=949>

Analysis this graph, it is possible to understand that people are focus on their career and probably having just one children or in some case no one, and the consequence is young population decrease and old population increase.

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British Airways can take advantage of this situation because people in this age may want to enjoy the live travelling, visit some friends and so on, and British Airways can bring this customer to it, and this type of customer possibly will pay to better services and better company, and business class for this customer are the best option to British Airways introducing them.

Appendix 3 - Unemployment rate

According to graph above, the UK Unemployment rate despite is getting a small better still so high, and this factor impact direct on British Airways, because whist people have no job it is difficult to this people travel by plane. On the other hand, people aged 16 to 54 had has been a significant increase since 2009, and may can bring more customer to British Airways.

<http://www.statistics.gov.uk/cci/nugget.asp?id=12>

Technological Factors

Price comparison using the internet

Online booking services and check-in

It is good because young peolpe prefer to used, but old people dont like this new techonolgies

The technology has created a lot of benefits for consumers. In the case of airline industry, now they can use comparison websites, which has contributed for their bargaining power; On the other hand, online booking beside facilitating customers, companies do not need to pay to agencies anymore (intermediaries). Furthermore, British Airways can also reduce the

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number of employees because it is possible to use more machines than people and BA improved its efficiency, as an example the clocking-in system implemented by BA to control employees hours, and It also creates new ways of communicating with customers. (XXXXX)

Environment Factors

One of the British Airway strategic is reduce issue that affect the environment, in order to this, British Airways chose to engage in CSR (Corporate Social Responsibility) to help achieve the company strategic, CSR also can help British Airways to identify risks to health, safety and environment, this strategic also can attract more investors and grow the company. CSR CASE STUDY

According to Convention for Climate Change and the Kyoto protocol, one big issue to solve is the carbon emission. And airlines companies have a high contribution in carbon emission. So, in response to this British airway decided to develop a program to solve this issue and the first target was fuel efficiency to reduce in 30% between 1990 from 2010. Doing this action the saving represents 50m tonnes of carbon diode (CO₂). The British airway has great reduction in carbon emission that the carbon emission saved can then be sold for other companies, which needs to go above its carbon emission. CSR CASE STUDY

Furthermore, another crucial point to British Airways is the noise pollution, to minimize this issue the company is inventing in quieter aircrafts and changing the way that its fly, the target to reduce the average noise per flight is around 15% by 2015. The people who living near to Heathrow are

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the people more affect with the noise but British Airways reduced around 30% the noise between 2008 and 2009. (annual report BA, 2009).

Natural disasters and weather conditions can impact the operations. These issues can impact on costs and consequently the company's profit. Volcano ashes

Legal Factors

During March 2010 British airways announce a decline in passage number; the decline was so high that was compared with the month after September 11 terrorist attacks. It was the worst march in more than a decade for passenger numbers, and the British airways strategic were cuts some its operational capacity. But the consequence was worst it. Because became a Cabin-Crew Walkouts that generate around £45m loss to British Airways. When more than 47% of the flights were cancel in Heathrow airport. On the other hand, during the same time Ryanair Reported that the passenger number has increased 13%. One of the reasons from that is probably the no-frills. (financial Times, 2010)

Beside all the legislation which reflects the heavy regulatory control governments have over airline industry, companies are also impacted by employment relations laws and recognition of trade unions. In the case of BA this has represented a lot of problems due to the strikes conducted by the employees. Beside the impact on image, the company has incurred significant losses. Other legislation which can impact its strategy is the restrictions on mergers and acquisitions. (XXXXX)

Meso Environment

XXXXXXXXXXXXXXXXXXXXXXXXXXXX

Competitive rivalry

The competition is very intense. Generally the main competitive factors in the airline industry are factors such as, customer services, safety record and reputation, price, routes services, in-flight entertainment systems and frequent flyer programs, flight schedules, capacity, types of aircraft, code-sharing relationship and so on. (datamonitor)

Short haul market BA has a lot of competitors, mainly Easy jet and Ryanair, and on this type of flights is more difficult to have differentiation. Product and service are easily replicated and it is difficult to achieve consumer loyalty, On the other hand. Long haul market with the OpenSkies changed the competitive landscape. Five new companies have slots in Heathrow to fly to U. S. (XXXXXXXXXX)

New Entrants

In the airline industry new entrants are low because there are significant barriers to enter. It requires high capital investment, there are also high regulatory requirements, it is a high competitive environment, it offers low profit margins, it takes more time to have the return on investment, and Slot spaces are expensive and the barriers to exit are high. (XXXXXXXXXX)

Substitute

On short Haul routes, airlines companies have a great competition with on the ground. Train operations in UK are taking a bigger share of the air,

principal because the infrastructure has suffer improvements and minimize journey times in lines such as West Coast mainline. Although Eurostar is disrupt by snow and freezing weather in January, the company still in increase around 1. 2% more passenger in 2009, at the same time demand for flight between London to Brussels and Paris fell b y 14%. (Annual Report BA, 2009).

Power of Buyer

British Airways through a strategic sourcing process produce services and goods, using benchmarking to make sure that they will achieve maximum value, for both parts such as suppliers and purchase. During the 2009 year , the company reviewed all its spending with 500 top suppliers who account around 94% of total annual external spend, in order to this, British Airways re-structure all its commercial deals and the result was a considerable saving over this period.

Power of Suppliers

Suppliers have high bargaining power, there are basically to suppliers of airplanes: Boeing and Airbus. And they are restricted by sole supplier of fuel in the airports. (XXXXX)

Micro Environment Analysis

XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX

Strengths

British airways has some important resources and capabilities such as: a fleet of about 250 airplanes and more than 300 routes; It has an

international customer database; It has financial resources, according to datamonitor 2009 report, the company has increased its revenues since 2005 and in 2008 the company had 10% of operating profit margin. The company has slots in the main airports; The company has created two subsidiaries: OpenSkies and BA City Flyer; It has also established some important alliances (OneWorld alliances) and it has franchised some routes. These resources and capabilities are valuable and can help the company to react against some threats and capitalize on opportunities. However they cannot be rare and inimitable depending on the competitors' available resources.

On the other hand, British Airways have some unique resources and core competencies which are more difficult to imitate, are more rare and represent an important value for the company. British Airways is the only company with access to terminal 5 in London Heathrow Airport, one of the main airports in the world. BA has also a reputable brand image recognized globally and reinforced by its long-standing existence within the industry. Through its subsidiary OpenSkies has offered a 32-seat all premium service from London City Airport to New York (Annual report).

British airways has a constantly increase in its revenue since FY2005 to FY2008 (HERE I NEED TO SHOW WITH GRAFICS, WHY THIS LAST YEAR THE COMPANY DECREASE?).

British Airways has focus on operational services such a punctuality and costumer services, important factor to achieve this aim is Terminal 5 at Heathrow. It is allowing British airways to provide customer with a

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completely level of services in a highly efficient way. Furthermore, an important strategic for the company is investments in its fleet, and £100 million is using to develop and modernise its first cabin and the customer feedbacks is brilliant. Costumer likes its idea because it is what costumer is looking for, more comfortable beds, space, privacy and everything is British style. (annual report BA, 2009)

British airways has a excellent fleet base operation and has its robust route network. The company is operating with 245 aircraft in service. (HERE A NEEDS TO SHOE WICH AIRCRAFTS AND COMPERER WITH COMPETITOR). Although, diversity fleet operation help the company to achieve their advantages over their competitor and to be effective utilization of its asset base.

In addition the British airways have just order two airbus A138 and six Embraer E190SR and five E170 aircraft to replace RJ85 and RJ100 Aircraft. Which are currently operated from City airport.

Furthermore, the British airways has carries more than 33 million passenger per year. (HERE I NEED THE INFORMATION HOW MANY PEEOPLE PER YEAR)

BA focuses on offering online services to preserve old customers and to attract new customer. The e-services were important factors that helped British airways to reduce costs and increase revenues. Furthermore, the e-services helps costumer to book hotels, cars all through the website. Third of all companies booking was sold by ba. com. in order to do this, British airways introduce a new tool that is capable to upgrade their booking at any

time between buying a ticket and checking on-line. Other facility it is access in real time the arrival and departures information through their mobile, which is useful tools for business people. (Datamonitor, 2009)

Weakness

British airways has a high debt obligation in FY 2009, the amount is around £2, 382 million, an increase of £1, 072 million in comparison to FY 2008. The increase in net debt included £554 million due to the retranslation of foreign debt. High debt make more difficult for a company to pay its principal and interest with respect to its obligations. In addition, can reduce the British Airways ability to use cash flow to fund working capital and other general corporate requirements. Furthermore, high British Airways debts difficult to planning and reaching to change in business and industry. (datamonitos, 2009)

British airways is one of the biggest airline company in the world but 62. 5% of the revenue came from European Market (data monitor, 2009). And it is not good business depends too much of a specific market. Because if the continent has an economic problem the company for sure going to be serious problem.

Appendix 5 - GDP Nominal

According to Nominal GDP, 30% of the world nominal GDP came from Europe. So it is a good strategic from BA focus on this market. But there are some problem mentions above.

Appendix 6 - klj

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According to PPP GDP, British airways should be focus on other countries to try to improve their revenues. In some countries such as China, Japan, India, Brazil and so on, there is a great chance to increase the revenues.

On the other hand, The European population has a high number of retender people that increase the probability of this people to travel (long haul flight) to enjoy their live. (here i need to find the reference. Again,, heheh)

Opportunities

British airways to try to improve its revenues were focus on business agreement with other airlines companies. British airways, American Airlines and Iberia have signed a joint business agreement in 2008 on flight between North America and Europe and part of the plan it is expand their global cooperation. This relationship was created to benefits customer to increase flight schedule and more fly option to travel to whore world. (annual reports BA, 1009)

OneWorld Global Alliance it is another (HERE I NEED TO EXPLAIN WHAT IS ONEOWRDL)

Another opportunity to business is the Open Skies between EU and US, because British airways can significantly increase its number of destination choices that the airlines can offer for the customers. Although, Airlines are applying for EU-US anti-Trust Immunity, where London Heathrow is open to any US or EU Airline that wants to fly to US and where the rival alliance have immunity. In order to this, the airlines companies also can expand customer choice by supporting more routes that it is not be economically viable for the

airlines companies. This strategic can increase the opportunity to British Airways to provide a better services for its customer and improve its business as well. (datamonitor, 2009).

Threats

The global recession has a high impact over on Airline industry, according to GDP growth rate has a declined from 5. 1% in 2007 to 3. 1% in 2008. Due the crises many Airline companies had financial loss and the principal affect class were the premium passenger because companies decided to cut business travel to save money, a recent survey suggest that 47% of business travel will take fewer travel in the year ahead. So, Global economic is affecting British airways where the company focus main on business travel. (datamonitor, 2009)

Over the latest years the Airline industry has been affected by global recession and drop in air travel and the airline companies strategies are merger and joint venture, recent examples such as Delta and Northwest Airlines in October 2008, between America West Airlines and US Airways in September 2005, American Airlines acquired majority of Trans World Airlines' assets in 2001. In Europe market some consolidation is happens too, such as Vueling and Clickair in Spain, Alitalia and Air one in Italy, Lufthansa acquired Brussels Airlines and British Airline BMI and Austrian Airlines. Other merger or joint venture with domestic and international market can affect directly British airways revenues. (datamonitor, 2009)

EU-US Open Skies Agreement has had a high impact on Long Haul Flight, during the first phase of the Open Skies at Heathrow, the competition has

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change on transatlantic routes, US Carriers Delta, Continental and US Airways have commended new flights to Heathrow offered more than 100 services per week. Other important markets are being liberalised is Canada, and others countries such as Australia, New Zealand and Brazil are going to be the next to suffer the Open Skies. (annual Report BA, 2009).

Strategic Analysis

British Airways main strategic is become the world's leading global premium airline. And to achieve goals its focus on make the cost base more efficient but making customer service an important part of this long-term vision. These are import factor to create a sustainable and profitable future for business, benefiting our customer, colleagues and shareholders. (annual report BA, 2009)

Global, offer destiny a across the world making individuals and business travellers want to choose British airways to travel for wherever their wants. (annual report BA, 2009)

Premium, certify that all its customer take pleasure in use unique premium service, and that their costumer make out the service and can pay more for it. (annual report BA, 2009)

Airline, Always develop new products and services to be always serving well its costumer. (annual report BA, 2009)

Mission

The mission of the group is to deliver service that matters people who value how the fly.

British Airways has objective to be the Airline of choice for Long Haul Premium customer, Long Haul flight market is the key to its profitability but always with a strong presence in economy and short haul segment and always focus on bring an excellent service and the best global connectivity for its customer, British Airways has a strategic to build presence in all top global cities through expanding and airlines partnership. (annual report BA, 2009)

Another value to BA is deliver an excellent service for customer at every touch point, to achieve this aim all the cabin staff have been receiving training such as service style to all passenger receive a premium service on all routes and classes. (annual report BA, 2009)

BA has an important objective to grow its presence in all key global cities in the world to offer the best global connectivity for its customers. The company want to be present in the top cities and also to expanding networking through partnerships. (annual report BA, 2009)

London is the world's biggest competitive international air marketing in the world, Build on its leading position in London Airline continuous to been the core for its business to achieve this objective British Airways has the government helps, however, the company going to enhance this by building profitable ancillary services that offer customers great value and re-enforce its brand. (annual report BA, 2009)

BA has essential to know what its customer needs and improve that through new revenue streams based on its core of business, although, BA building

profitable auxiliary services that offer customer great value and re-enforce its brand. However, the company want to develop new products and services which exploit its assets and capabilities. (annual repost BA, 2009)

British Airways Business Plan

British Airways business plan is build around the world a Global Premium airline for long haul flight, and to achieve its objectives British Airways has a structure in five factors: Colleagues, Customer, Performance, Excellence and Partnership. (annual report BA, 2009)

FOCUSED ON OUTSTANDING CUSTOMER SERVICE

Colleagues

What can British Airways to do improve its business and how can they work together to achieve that, and how the company can develop its people to achieve their performance. (annual report BA, 2009)

Customer

What British Airways can do to outstanding experience for its entire customer, they will monitor carefully all the opportunities and try to adjust capacity as economic condition allow, another strategic is reduce flying outside the peak periods to reduce costs and maintain the quality and services for its entire consumers, the company intend to develop more flying during the holidays businesses to give the customer more opportunities to fly. In addition, the new Boeing 777-300ERs will arrive soon to improve its fuel efficiency and environmental performance. (annual report BA, 2009)

Performance

What British Airways can do to improve its financial performance and deliver for its shareholders, the company will build on record-breaking levels of operation performance through continuous improvement of the way its plan and control the operation. The company will extend the successful Terminal 5 at Heathrow to more of its services through developing of the second satellite Terminal 5C that going to open in 2011. (annual report BA, 2009)

Excellence

What British Airways can do to maintain and improve its operation performance and the quality of its processes. One of the strategies is implement joint business agreement with American Airlines and Iberia. Doing this can the company offer for its customer better services such as improve flight schedules, deliver enhanced and disruption management. Partnerships going to be developing such as those who were announced this year with India's Kingfisher Airlines and the Russian carrier S7, to improve its position in the global cities in whole world. (annual report BA, 2009)

Partnerships

What British Airways can do to work with other Airlines companies business, with its principal suppliers and the communication that is based on economic environment and challenging industrial relations, for the next years British Airways will work to make better to engage across the company rallying our colleagues with drive towards ever greater customer services. The company

will continuous to invest in make targets to improve its way to manage its talents with focus on develop new front-line leaders. (annual report 09

Vision

Objectives

British airways have many objectives such as, improve employee and customer Satisfaction, increase revenue, Maintain competitive strength in the industry, improve fuel efficiency and develop especial equipments for disable people. (HERE I NEED INFORMATION ABOUT HOW MANY PEOPLE ARE FLYING PER YEAR)

Another British airways objective is maintain customer loyalties and sustain their dominance in the airline industry. (executive report, mar binns, 2007)

According to Annual report 2010, the merger with Iberia is a good deal both for long-term sustainability of the business and for customer, because they can together increase their networks, one is strongest on the North Atlantic and Asia and other is strongest in Latin America. Together they believe can realise around £400 million in synergies from the fifth year. BA strong believe in the synergies can realise its resources on this highly competitive route will be good for customers, shar