

# Report on organizational structure and finance of british airways

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



This report aims to give an analysis of the organisation of the British Airways Airline. It will discuss the organisational structure of British Airways and its sources of finance; that is where it gets its money from, how it is used and whether a profit or a loss is being made. The market the organisation operates in and its management type will also be discussed. The quality of the good or service provided will also be highlighted and an analysis of the supply chain that is showing the forms of distribution will be given. In conclusion, the report will summarise the information on the organisation and a view of its trading in the last five years followed by recommendations on how I feel the business may proceed in the current economic climate. The report was compiled by drawing literature from the British Airways website, lecture notes and relevant Business Organisation books.

### **History:**

The British Airways, an organisation that operates in the Travel Market is the largest operating airline in the United Kingdom. It has its base at Heathrow Airport in London. Although the airline has been operational since 1919, developments over the years saw the merging of the British Airways Corp. (BOAC) and British European Airways (BEA) in 1974 leading to the establishment of the current British Airways,(Corke, 1986). The organisation operates both domestic and international flights to about 600 destinations around the world. This is the reason why it is one of the world's leading airlines.

The British Airline is a Public Limited Company (PLC). It was listed on the London Stock Exchange in 1987. Following its privatisation, the airline

expanded its operations and managed to take over some competitors such as British Caledonian within the same year and Dan-Air in 1992. During the late 1990s, British Airlines established the "One World" alliance as it became more competitive to win more customers and had themselves high profit margins during the millennium labelling the airline a major full-service carrier, (Corke 1986).

### **Organisational Structure:**

Mintzeberg et al, (1979) defines a business as an organisational entity that is legally set up to provide goods and services to customers in a country. He further states that an organisation consists of a large number of people bringing together ideas to achieve common goals using a variety of tactics to come up with short-term and long-term strategies for a business's future success. Since British Airways is a public limited company (PLC), its type of business organisation is the private sector. Being a Public Limited Company, British Airways is owned by shareholders who buy shares from the stock exchange market and have separate legal identity from the business. If the business goes into debt each shareholder will only lose the amount of share capital they invested and not their personal possessions. Due to the airline being a private limited company, the government is not involved in its running. Its aims and objectives are to maximise profit in the long-term by focusing on improving and maintaining outstanding customer service and becoming the world's leading premium airline.

An organisational structure is important because it determines how the organisation will be run in order to meet its aims and objectives, (Cunnee,

2008). He defines an organisational structure as the number of ways used in a business to set up division and specialization of labour focusing on maintaining co-ordination to achieve the same targets. British Airways has a flat structure meaning it has a small number of management levels but a wide span of control. The airline has adopted a divisional structure mainly because of the nature of its business which is customer focused. The advantages of this method are that it gives clear identification of job roles, less time consumed in decision making and easy supervision for managers between departments. This increases efficiency as different people are given the opportunities to effectively utilise their different skills, but it can also be inefficient because the managers have a large number of subordinates reporting to them therefore increasing their workload. On the other hand, employees may not feel secure about their jobs as they are being strictly watched over and may be de-motivated to work effectively. Another shortfall of this method is that each department may focus on its own objectives which may conflict with other departments, (Martin, 2010).

### **Sources of Finance:**

British Airways is financed by issuing shares to the general public on the stock exchange market and from convertible bond issues. The bonds which have low interest rates could be used as a long-term fund which can be changed into share capital of the company during times of bankruptcy, (Rutterford, 2007). In 2009, the Market Watch reported that British Airways got a boost of £600 million through the issuance of convertible bond and an agreement with its pension fund to release bank guarantees back to the

airline. Of this amount £300 million worth of convertible bonds due to mature in 2014 and will be convertible into 15% to 20% of its share capital. The other £300 million which will only be accessible in the case of bankruptcy will allow British Airways access to bank funding of £3330 million up June 2012, (Market Watch, 2009).

Like most public companies, British Airways' aims and objectives are to maximise profit. In 2008, British Airways made a profit of £726m while its 2009 Income Statement shows a loss of £358m. Part of the loss is due to the effects of the recession that affected a large number of United Kingdom's businesses and the whole world. Because of the recession, there was a high increase in fuel prices due to limited resources. This left British Airways with no choice but to buy the fuel regardless of the price as it is important for its business. Fewer consumers were able to afford travelling expenses due to high costs. The wage bill of the company also had a great impact during such hard times. The employees demanded high wages for them to be able to afford their own personal needs as well. The differences between the airline's management and the employees led to strikes that also contributed to the loss of profits by the company. The strikes led to a destruction of many consumers' travel plans that has also led to bad public image causing a negative influence on the airline's market. The conflict of objectives between the airline's management and its employees still remains unresolved. In 2009, most of the expenditure expenses were made up of fuel and oil costs and employee costs of £2969(m) and £2139 (m) respectively. The loss made

in 2009 was carried forward through to 2010 of which a loss of £425(m) was made.

## **Marketing Management**

Marketing is the identification and provision of customers needs at the same time ensuring that the organisation makes a profit. Marketing management is essential for a business such as British Airways as it allows for flexibility to adapt to the changing needs of the market. In this strategy, the organisation is always assessing the needs of its customers in order to design products of better value. There are many different strategies a business could adopt for better marketing management and this could be done through the marketing mix. Marketing mix is the identification of the 4/7P's. In this report I am only going to talk about the four main P's. The 4P's are the product being made, the place it is going to be provided, promotional strategies put in place and the price to be paid by consumers, (Kotler et al, 2009). The nature of the business of British Airways is to provide flight services to consumers across various places around the world. The airline's product strategy includes flight services that are offered in various packages for example, the differentiation between the business, first and economic classes. This is done to satisfy each consumer as the airline has considered and provided for different classes of the economy. Promotion is the extra cost of a business to differentiate itself from competitors and try to win consumers attention by persuading them to choose them over their competitors. British Airways has branded itself as an airline that provides a luxury, safety, reliable and

convenient service that transfers people to different destinations which is why one would want to go out and travel with them.

Price is the value placed on the exchange of goods or services during the marketing process. Customers pay up money in return to satisfy their needs, (Smith, 2007). The price should be based on the quality of the product, taking into account customers' expectations. However, charging a low price to a product worth more may not be beneficial to the company as that would lead to a loss in potential profit (Kotler et al 2009) while on the other hand; charging a high price for a product not worth it will cause a reduction in demand and bad public image. British Airways pricing policy entitles one to get what they paid for with the freedom of choice in the payment package for the type of flight service they would like.

The airlines pricing strategy is based on three class seats provided by the airline. These are premium, medium-value and economy strategies. With the premium strategy, business and executive consumers are given a high quality service being charged a high price for it. British Airways' competitors in this service are other giant airlines such as Virgin and American Airlines. The medium-value strategy consists of a standard charge with quality less than the premium strategy but more than of the economy strategy. The economy strategy provides just the basic services with extra benefits like entertainment and free food and drinks adding to the quality and advantage of British Airways brand image, (Kotler et al, 2007). However, the airline has revised its pricing policy to competitive based pricing meaning it charges fares at the same level as competitors or lower. The airline wants to compete

with rival low-cost airlines on short-haul European flights. Free food will still be offered although a fuel surcharge of £8 per single journey (£16 return) has to be paid by customers on top of their regular payments, (British Airways,). Another advantage of British Airways' pricing strategy is that low-cost airline ticket prices are cheap when you book them well in advance but as it gets towards travelling dates they become very expensive, even much more expensive than British Airways. With British Airways the price will relatively still be the same until the week one travels.

## **Quality**

Quality is a word which is defined differently by different people. From the different meanings, quality is the sum of all the features of a product or service that ensure that the customers' needs are met appropriately. The products or services should be at least worth the price charged on them likewise, the quality of employees could be based on their performance with regards to the given tasks, (Mauch, 2010). British Airways adopted a high quality service approach although it eventually came to conflict with cost-cutting measurements that had to be put in place due to increased competition. The service provided by British Airways is flights from one destination to another and its brand core is " Quality flights for all people" meaning it tries to satisfy and accommodate all different kinds of consumers. As a consumer you get the feel of being a business man and executive traveller and the airline has the glamour any traveller would dream of. Being a fast mode of transport, less time is consumed for people in a hurry, you are assured of being at your destination at the estimated time shown when



purchasing you ticket. Most people who fly with British Airways are the business man as suggested by its brand, although all different cultures are welcome on board. Marketing wise, the airline offers luxury travel with safety and comfort whilst flying. Despite increased competition and cost-cutting, the airline still remains one of the best airlines because low-cost airlines such as Easy-Jet and Ryanair do not offer extras or as much comfort and security like British Airways. This is for example, Low-cost airlines only provide cheaper fares but they do not offer luxury comfort like TV entertainment or free food and drinks on flights and business seats compared to British Airways.

## **Supply Chain**

A supply chain consists of a link between different channels of distribution that is, from the raw materials to the final customer. Supply Chain Management includes five key areas that are transportation, suppliers, warehousing, meeting orders and retailers; (Chopra et al, 2010). British Airways operates in the final product that is providing the service to customers. This makes the supply chain shorter and more effective due to the provision of direct services and saves time on any occurring problems as they can be dealt with quickly. The airline operates from many different locations with its major base at London's Heathrow Airport. The customers have the strength of buying that can be divided into two main parts that are price sensitivity and relative bargaining power. The price sensitive buyers will look at an alternative option and compare prices charged to similar products and choose the one which is more beneficial. Therefore holiday

packages have been introduced to overcome big volume products and for the airline to gain control over its supply chain and strengthen its brand.

British Airways tries to satisfy all its customers with various needs from the different classes it provides for. Value is added in its supply chain process by providing different lounges and on board food and wine menus for the first class seats. Also the regular customers of the business class seats get blue, silver or gold cards and executive lounge at all main airports. Overall, the airline provides a good service for all fliers that is giving them free food and drinks, different types of entertainment including two in flight magazines, movie collections, radio channels and TV programs,

British Airways' target market is both domestic and global. Although the airline welcomes customers from all walks of life, it has made a lot of effort in maintaining its business and first class sections where it maximises its profits and increases its competitiveness at the same time customers who use these two sections get real value for their money.

## **Conclusion**

Due to increasing competition in the flying industry, consumers expect a reduction in the prices charged which would cause the companies to reduce the quality service provided. Although Easy-Jet and Ryanair seem to have succeeded, they have had to compromise the quality of the service by making it basic with nothing much to offer apart from the reduced fare.

Because of its outstanding service the British Airways has remained competitive in the current economic climate.

In the three of the last five years that are 2006, 2007 and 2008 British Airways made profits of £451(m), £304(m) and £726(m) respectively, however in the other two years, 2009 and 2010 it made losses of £358(m) and £425(m). This is mainly due to the effects of the recession that started towards the end of 2008.

The airline has managed to survive the recession despite having made profit losses. I believe it has the potential to recover from its financial crisis and maintain its position as one of the leading airlines worldwide. The management and employee issues need to be addressed sooner than later in order to avoid strikes that will further increase the financial crisis of the company and also negatively affect its image in the market.