

# Company analysis and market review for british airways

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



British Airways can trace its origins back to the birth of civil aviation, the pioneering days following World War I. On 25 August 1919, its forerunner company, Aircraft Transport and Travel Limited (AT&T), launched the world's first daily international scheduled air service between London and Paris. That initial flight, operated by a single-engine de Havilland DH4A biplane taking off from Hounslow Heath, near its successor company's current Heathrow base, carried a single passenger and cargo that included newspapers, Devonshire cream and grouse. It took two and a half hours to reach Le Bourget. Shortly afterwards, two more British companies started services to Paris, and to Brussels.

In July 1979, the Government announced its intention to sell shares in British Airways. The Civil Aviation Act 1980 was passed to enable this to happen. Lord King was appointed Chairman in 1981 and charged by the Secretary of State for Trade to take all necessary steps to restore the Group to profitability and prepare it for privatisation. With an overall deficit of £544 million declared for 1981-82, including special provisions to pay for an extensive "survival plan", which included staff cuts, suspension of unprofitable routes and disposal of surplus assets, the task of re-establishing the company as the world's leading airline began in April 1983 with the repositioning of the carrier as the World's Favourite Airline. In February 1987 British Airways was privatised. Over one million applications were received for shares in the airline, offered at 125 pence, making the flotation 11 times oversubscribed. Freed from the constraints of Government ownership, British Airways announced a merger with British Caledonian in July. The merger

went ahead following approval by the Monopolies and Mergers Commission later that year.

In March 2000, Robert Ayling was removed from his position and British Airways announced Rod Eddington as his successor. Eddington set about cutting the workforce further, in response to the slump caused by the 11 September attacks in 2001. On 8 September 2004, British Airways announced that it was to sell its 18.5 percent stake in Qantas.

In September 1998, British Airways, along with American Airlines, Cathay Pacific Airways, Qantas and the now defunct Canadian Airlines, agreed to form the one world airline alliance in order to better compete with the growing Star Alliance members. One world began operations on February 1, 1999 and has since grown to include 11 carriers with 2 pending and has become one of the largest airline alliances in the world, behind only Sky Team and Star Alliance

In September 2005, new CEO Willie Walsh, former Aer Lingus pilot and then boss, took charge of the company.

In January 2008, BA unveiled its new subsidiary Open Skies which takes advantage of the liberalisation of transatlantic traffic rights between Europe and the United States. Open Skies flies non-stop from Paris to New York and Washington D. C.

In July 2010, British Airways received permission from the European regulators of aviation, the European Commission, to merge with Spanish

carrier, Iberia, and to co-ordinate with American Airlines on fares and scheduling for transatlantic routes. On July 20, 2010, the US Department of Transport approved the deal with American Airlines, making final their tentative decision from February 13. The deal is set to become operational by the end of 2010 and is expected to save British Airways £560 million every year once all the cost-overlaps between the companies have been eliminated.

Today British Airways operations are carried in more than 130 countries and cities round the globe with 600 offices and destinations. If we closely analyze the success of British Airways over the years, we can see that due to adapting new technology in the business and the use of appropriate technology in proper planned systems have had dramatic changes in the operation in British airways. (The Press Office; [www. britishairways. com](http://www.britishairways.com))

Despite a long and successful history, British Airways has been making corporate losses. For example, in 2002, it has made a loss of £142 millions and the share price has been decreasing since 2000.

## **TRENDS IN BRITISH AIRWAYS**

A marketing audit is in a number of ways the true starting point for the strategic marketing planning process, and is therefore, as Kotler (1999) has suggested ' a comprehensive systematic, independent and periodic examination of a company's-or business unit's-marketing environment objectives, strategies and activities with a view to determining problem areas and opportunities. An analysis of the three key perspectives of a

marketing audit; the ' macro-environment,' the ' micro-environment' and the ' internal environment will be carried out for BA.

The marketing environment is ever changing and therefore it is essential that a structured, detailed and continuous analysis of the principal dimensions of the environment is made.

1. PESTEL ANALYSIS

2. SWOT ANALYSIS

3. 5 FORCES

## **PESTEL ANALYSIS**

### **Political and Legal Factors-**

The stability of a country's Government can affect the routes that airline companies operate. For example, Iraq is now in a war with the UK and the US. Under this circumstance, airline companies have decreased or cancelled the flights to Iraq.

Like all airlines, BA must observe the rules and regulations of the USA's Federal Aviation Authority (FAA) and the UK's Civil Aviation Authority (CAA). This leads to heavier costs and more administration, which of course does not help BA's financial situation.

A significant legal factor affecting BA is the power of trade Unions. BA has suffered many strike actions (August 2004 and August 2005) and is aware of the implications that the trade unions can cause. Legal regulations on

employee rights, customer rights and an upsurge in environmental and ecological issues are more factors that BA must consider.

### **Economic Factor-**

Since the September 11th attacks, insurance costs of airline companies increased due to the tighter airport security check and the global fear of terrorism. I cannot see the price of insurance for airline firms decreasing in the foreseeable future.

The demand for air travel is characterised by a very high income elasticity. Therefore, as the world economy grows, so the demand for air travel can be expected to increase too.

Landing charges have also increased over the last 6 years. This is a barrier of entry for new firms who wish to enter the industry. The financial implications that are required are far higher than many firms can afford.

### **SOCIAL FACTOR-**

The social and cultural influences on business vary from country to country however it is important that such factors are considered and include demographic and cultural aspects. Lifestyles, tastes and fashions are all changing; customers require opportunities to visit new and interesting, often long-haul, destinations. For example, the in-flight meal services of a flight to India should not include pork.

The Airline industry serves a wide range of global destinations, carrying passengers from many different national, religious, disability, ethnic,

language and cultural backgrounds. For example, when airplane arrives in a different country to its departure a different language and social etiquette should be used.

### **Technological Factor-**

British Airways invested a huge amount of money in Lotus technology and other associated technology. The Lotus technology installed sits within a complex and sophisticated IT environment that also encompasses the use of UNIX for real-time and other database applications.

Airline industries are constantly looking for new technology to use to improve not only the security but the service overall.

With the rapid development of technology, airline companies now are forced to adopt technology into in-flight services. For example, British Airways have started to provide in-flight Internet services. Additionally, airline companies have Internet ticket booking systems in order reduce costs and become more competitive. BA also does this.

## **SWOT ANALYSIS**

### **STRENGTHS:**

The size and the establishment of the brand

Customer loyalty

Long haul flights

Gate positioning

Use of the Internet

## **WEAKNESS:**

Lack of innovation and ideas

Reliance on certain revenue sources

Little market activity

Worrying financial position

Damaged reputation

## **OPPORTUNITY:**

Further alliances

Government regulations

## **THREATS:**

Strong competition

Fuel costs

Terrorist attacks

Global recession

## **Porter's Five Forces**

Threats of entry



Threats of entry of the airline industry are low. This is due to the following two factors:

1) The capital requirement of entry.

A large amount of capital is required to set up an airline company. For example, a Boeing 737-800 cost £29. 5m – £38. 5m. Few organisations can boast such capital.

2) Experience

Experience is pivotal for an airline company. For example, staff training and the co-operation of each department, i. e. customer service. Obviously the main experience consumers want is a safe flight history, which cannot be established until passengers try your airline.

Threats of substitutes

Since September 11th 2001, the airline industry has been suffering from the loss of customer confidence. However there is no direct replacement for airlines for long journeys. Short journeys can be catered for by transport such as trains, ships/ferries and coaches.

An indirect substitute of air travel is the rapid development of technology. According to the International Air Transport Associations Corporate Air Travel Survey 2003, 40% of business travellers use video technology and video conferencing equipment in order to save both time and money. This limits an organisation's travelling expenses.

## Buying power

The buying power of consumers in the airline industry is high. Airline companies often provide over-complex offers; Virgin Atlantic does this, to customers. The budget airlines, EasyJet and Ryanair sometimes provide customers with 'rock bottom' prices. Also, the non-budget firms can often give competitive offers to customers. All of these factors amount to a higher buying power for consumers.

## Power of suppliers

Airline companies have suppliers for many different products, for example, suppliers of aircrafts, fuel and in-flight services. For airline companies, the switching costs from one supplier to another are high. The brand of a supplier in the airline industry is powerful. For example, if British Airways have Boeing aeroplanes, they have to keep the services and maintenance of their airplanes with Boeing.

## Competitive Rivalry

In recent years, airline companies have been suffering from losing customers. Many companies have been involved in cost efficiency savings; for example, British Airways has a Company Restructure Plan (The Press Office; [www.britishairways.com](http://www.britishairways.com)) which includes "a twenty per cent reduction in manpower." Also, the emergence of low cost airlines makes the competition tighter in the short distance travel area. There are not many products that British Airways offers as it is generally a service. I feel their "

On Business” programme can be considered a product. I feel that it has a high share of a slow growth market. The corporate travel is slowly beginning to decrease in popularity due to advantages in technology and cheaper rates offered by its competitors. I consider the reward schemes offered by BA to be a “ STAR” as it encourages repeat business and generates a fairly large percentage of BA’s income. Even though the Concorde is no longer in operation, it was a factor that had major contribution to BA’s debts.

## **Market Segmentation**

Market consist of buyers and buyers differ in one or more ways. They may differ in their wants , resources, location, buying attitudes and buying practices. Through market segmentation , companies divide large heterogeneous markets into smaller segments that can be reached more efficiently with products and services that match their unique needs.(kotler)

### Bases for Consumer Market Segmentation

British Airways has divided it market segmentation into different variables.

There are number of variables involved in consumer market segmentation, alone and in combination. These variables are:

- Geographic variables
- Demographic variables
- Psychographic variables
- Behavioral variables

**Age- Children are those aged over two years old and under twelve years old at the time of travel. We offer a limited number of discounts for selected shorthaul routes. On longhaul routes we offer some discounted fares.**

**Baby products delivered to your destination :-We've teamed up with tinytotsway. com who will deliver a range of baby products to you at your destination. Save on packing or shopping for your baby as soon as you arrive and you can start your holiday knowing it's all taken care of.**

Occupation- British Airways give extra benefit for High Class . Some of the benefits like Club Card.

Income- People who are into business class can travel in British airways as airfare are very high.

Nationality – In british airway all different kind of nationality travel.

## **Market Targeting and Positioning**

Market targeting simply means choosing one's target market. It needs to be clarified at

the onset that marketing targeting is not synonymous with market.

Target market signifies only those segments that it wants to adopt as its market. A selection is thus involved in it. In choosing target market, a firm basically carries out an evaluation of the various segments and selects those segments that are most appropriate to it. As we know that the segments must be relevant, accessible, sizable and profitable. The evaluation of the

different segments has to be actually based on these criteria and only on the basis of such an evaluation should the target segments be selected.

For Example British Airways target they monitor customers' views through our Think Customer Survey. This is independent market research involving more than 36, 000 customers each month. Our headline measure is customer recommendation. Apart from being extremely important in its own right, we believe that this measure indicates how the customer experience will affect future profitability.

We also track customer views on our performance relative to our competitors, as well as general airline customers opinions' of our brand. These views help us steer our product investment decisions. For 2009/10 we set a target level of customer recommendation of

65 per cent. Our underlying performance was strong, but we failed to reach the target due to a small reduction in levels of satisfaction in response to the onboard catering changes, and also through some significant operational disruption. Our score was also slightly depressed by our move in April 2009 to an onboard survey for shorthaul flights. ([http://www. britishairways. com/cms/global/microsites/ba\\_reports0910/pdfs/Strategy. pdf](http://www.britishairways.com/cms/global/microsites/ba_reports0910/pdfs/Strategy.pdf))

Positioning involves implementing our targeting. For example, Birtish Airways is positioned for luxury segment, The position of a product is the sum of those attributes normally ascribed to it by the consumers – its standing, its quality, the type of people who use it, its strengths, its

weaknesses, any other unusual or memorable characteristics it may possess, its price

and the value it represents. (<http://www.scribd.com/doc/30282164/market-segmentation>)

For Example if you have work to do, there's wireless broadband provided by BT Openzone free in all British Airways UK lounges. In many lounges outside the UK we have partnered with a local provider offering free Wi-Fi, although at some airports there will be a charge. ([http://www.britishairways.com/travel/crcusthome/public/en\\_gb](http://www.britishairways.com/travel/crcusthome/public/en_gb))

## EVALUTION OF MARKETING MIX