

# British airways failure of silverjet

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



## Lessons that British Airways might have taken away from the failure of Silverjet

This essay is going to discuss the several inconsistencies that lead to the failure of Silverjet, and the lessons British Airways might have taken away. For example, Ritson (2008, p25) states, that “ while single positioning to one target is attractive” to increase the chances of making more profit “ is to target multiple segments”, which is one of the reasons why Silverjet has ceased its operations. Also, Capell (2007) explains that even though competitors such as British Airways, Virgin Atlantic and American Airlines were providing their services at a higher price than Silverjet, “ most of them had funds to last them through a downturn”. I believe these are two issues, that are of a greater significance out of the whole history of Silverjet, which will be comprehensively discuss in this essay.

One lesson to be learned by British Airways is segmentation strategy. For example, Dudovskiy (2016), an international business researcher, analysed British Airways, and found that the company’s key target market, are business class individual and first class travellers, thus focusing less on lower income population. This opens an opportunity for British Airways, and learn from Silverjet’s failure, to adapt and appeal to more than one segment (Ritson, 2008, p25). A way of taking advantage of the multiple segments, is by taking into consideration a study by Solomon et al. (1994) that shows that, in order to understand consumer decision making “ marketing managers “ should carefully study “ how consumers obtain information, . what criteria consumers use to make product or service choices.”. By researching consumer behaviour, it gives British Airways the ability to enter

a new target market, and increase the chances of increasing capital to survive through economic downturns. For instance, Ritson (2008) pointed that, low cost airlines such as EasyJet and Australia's Virgin Blue, " started with a focus on economy segment", however have now started focusing on " business-class seats and targeting premium travellers."

Another lesson, following on from the above paragraph, is one that precisely focuses on raising enough capital to make it through uncertain and difficult times. According to Lowe (2007), due to the rise in fuel prices, Silverjet run out of funds, and therefore had to suspend its shares and operations in 2008, due to not being financially flexible. British Airways also suffered, from not being financially flexible, where in 2009, lost £148m in profits BBC (2009). As British Airways is a UK based company, recent events such as Brexit, will heavily impact the airline industry. Ambrose (2016) states that airlines can transport passengers anywhere in the EU for free, if the country that the company operates in, is a EU member. However, if UK will leave the EU, British Airways will lose that right, leading to a dip in its budget. To cover the new expenses, the company must increase its prices, which will impact consumer confidence, making customers to look for cheaper services, thus affecting British Airways gravely (Kotler et al., 2012). Thus, to avoid this issue, British Airways, should look to raise funds, and ensure financial flexibility, which will later be used for unexpected expenses that may arise as a result of economic downturns (Boddy, 2014). Thus, I believe the best option for the airliner is to please its shareholders and ensure satisfaction amongst their stakeholders.

Examining the two lessons that British Airways might have taken away from the failure of Silverjet, it all comes down to the economic condition a company operates in. A study by Sloman and Jones (2014) shows that, supply and demand is affected by the economic conditions present at the time. Supply means what quantity is being produced, whereas demand consists of the quantity consumers want to buy (Econlib. org, 2012). Thus, supply and demand have been greatly affected by the Great Recession, which started in July 2007. According to Lowe (2008), Silverjet started making a profit only 6 months before The Great Recession settled, this creating many difficulties for the Airliner. Therefore, within 10 months, Silverjet were only able to fill 24% of their available seats, which resulted from the failure of securing an investment to support the company in continuing its operations, only to go into administration a month later (Lowe, 2008). As briefly explained, what stopped Silverjet, was that demand decreased due to the lower consumer income, which resulted from the economic uncertainty settled at the time. Thus, British Airways will also be affected by this uncertainty, resulted from the current global events, such as the election of the new American President and Brexit (BBC. co. uk, 2016). The airline industry can again, be shaken, by consumers being discouraged to travel, due to the restrictions that might come in place because of UK exiting the EU. Also, the new US President, might impose greater immigration control, which might require more documents, impacting on ease of travel (BBC. co. uk, 2016).

Unlike Silverjet, British Airways could, in fact, soften the impact these events could have on its operations, by using a specific set of tools and techniques,

to forecast demand and effectively adapt to the changes to come. One of the tools is SWOT analysis, and a study by Boddy (2014), pointed that, it is “ a way of summarising the organisation’s strengths and weaknesses relative to external opportunities and threats.”. This, will aid British Airways in comparing itself to the competition and what can be improved to prepare itself for the changes to come. Also in the study, another important tool is to assess the Macro Environment, using PESTLE. Moreover, according to Sloman and Jones (2014) the most efficient method in forecasting is “ barometric forecasting which involves the use of leading indicators”. For example, specific to British Airways, forecasting demand can be done by analysing the fluctuations in Stock Exchange prices, changes in consumer confidence, changes in the GDP, changes in interest rates and changes in the rate of exchange, all these being effective indicators of how stable or unstable economic conditions are (Sloman and Jones, 2014). Thus, enabling British Airways to predict ahead, approximate demand curves in the airlines industry. Aspects of demand can be affected through legislations and fluctuations in fuel rise.

It can also be discussed, that the reason why British Airways has not failed yet, is due to their commitment of providing value to their customers. Even though, their customers had to pay high prices for British Airways services, customers would still rely on the airliner’s services, as they provided satisfaction and high quality (Kotler et al, 2012 p. 100). Also, British Airways, already had large fleets and already invested funds in increasing the quality of the business class services, thus helping them to survive through the economic downturn. Whereas Silverjet, mainly focused on quantity and not

quality. This impaired by the fact that their budget was limited. It can also be seen in Hunt's interview held by Lowe (2007), " There is an overreaction. We have a 76pc load factor which we have achieved in five months and we do not think any airline has done that.". In my opinion, this denotes the owner's frustration that the reason why their shares value nosedived is because, shareholders did not understand the fact the company had achieved its aim of having a load factor of 76pc.

In conclusion, the three key lessons that would lead British Airways to being one of the leading companies in the airline industry are change in the segmentation strategy, raise enough capital, and use tools and methods of forecasting demand. By simply expanding their services to target economy passengers, the company can " make serious money" (Ritson 2008). Also, in terms of raising enough capitals, it could simply be achieved through pleasing shareholders and stakeholders alike, by being honest, transparent, all inclusive, listening to feedback and ultimately continuously adapt to the current economic changes, through ensuring that the Macro and Micro Environments are constantly being analysed. The last aspect but not the least, is taking advantage of the " barometric forecasting" tool, which simply looks for patterns in the economic environment, which consists of aspects such as fluctuations in exchange rates, interest rates, political events, GDP figures and fluctuations in consumer spending (Sloman and Jones, 2014).

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