

# Impact of recession on business of british airways commerce essay

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



The global economy is experiencing problems ever since. There have been notable economic recessions in international business history. These recessions were managed in a variety of ways depending on the strategies which were implemented on a business-to-business basis. Each international company have intensified their efforts in order to come up with a variety of strategies which are geared towards the implementation of business policies and practices aimed towards the reduction of the impact of economic problems in the performance of their business. Depending on the extent of damage that the recession has caused the financial performance of a particular company, they have differing efforts in terms of redirecting their strategies and goals just to be able to combat the adverse effects of this economic downturn. Some efforts have proved to be effective. Unfortunately, some proved to be not effective which even forged some businesses to shut down or to merge with other businesses in order to battle the survival of the fittest in the environment of the world's toughest businesses.

In the field of economics, the term economic recession is described to an incident in the situation of a country wherein the gross domestic product reflects a negative growth in a period of at least two consecutive quarters[1]. Given the fact that the United States is the global leader when it comes to the consumption of goods and services, once this country experiences the phenomena of the recession, such will send shockwaves to the global economy and will inevitably affect the other countries in the world. When the United States experienced the phenomenon of the economic recession, many countries have been affected and their economy also experienced a

downturn as the financial crisis hit their respective areas and shows effects which are negative to the business.

Furthermore, in a scholastic work published by Leamer (2008), he stated that it is not enough that we only take a look at the two consecutive quarter negative growth of the gross domestic product in order to define recession. In his work, he mentioned that recession according to the National Bureau of Economic Research refers to that situation wherein “ there is a significant decline in activity spread across the economy, lasting more than a few months, visible in industrial production, employment, real income, and wholesale-retail trade”. Such definition of the concept of economic recession takes a broader look on the phenomenon rather than paying dedicated attention on the decline of the nation’s gross domestic product. There are other academic works which contest the inclusion of only the gross domestic product in understanding economic recession.

The occurrence of recession is not primarily concentrated only on one sector of the economy that is why there is a need to take a look at economy-wide measures in order to fully understand the theory which lies beneath such economic activity. The committee also holds that there are four indicators which will be useful in understanding economic recession including employment, personal income less transfer payments, and volume of sales of the manufacturing and trade sectors, and industrial production.[2]This concept strengthens the assumption that understanding the occurrence of economic recession cannot be full by only looking at the gross domestic

product, rather it also entails an understanding of other economic variables which may prove to be just as useful in understanding recession.

The occurrence of every recession in the global economy can be characterized by the painful increase in the rate of unemployment and a decline in the personal income of the citizens of the nation[3]. Such aspects should not be disregarded in order to understand the realizable signs to claim that the economy is in trouble and it is in fact experiencing the occurrence of recession. In 2001, when economists claim that the United States is experiencing economic recession, such signs have been visible in their business performance. Although the occurrence of such has been hard to accept, there is no way but to do so to move on with global business. As mentioned earlier, to fully combat recession, various strategies have been formulated in order to improve business performance with the objective of bringing in additional profit for the company to provide a better living on its employees. While some efforts have proved to be useful, it is very unfortunate that some caused more trouble and resulted with a number of companies shutting down, especially the small ones and those which were hardly hit, causing a big number of employees to have lost their jobs.

In the course of this paper, the researcher will study the concept of recession, including the variety in its definition and the signs which will be indicative of the economic trouble. While studying the concepts which underlie recession, the researcher will study the case to the situation faced by the British Airways, one of the world's providers for air travel. Just like any other businesses, it cannot be denied that British Airways also experienced

recession. The paper will examine how the company faced these problems, including the strategy which it has formulated to combat recession and also the long term effect which were brought about by the recession.

## RESEARCH PURPOSE

As what has been mentioned, economic recession is a global phenomenon. The United States is a global leader in business, any economic downturn in the country will send shockwaves all over the world, affecting every local market. The main purpose of this research is to take a closer look on the impacts of global recession in the economy of United Kingdom, specifically in the business performance of British Airways. In the course of the research process, adhering to its main purpose, various economic indicators will be studied to know how it leads to the occurrence of economic recession. Furthermore, the core of the study will be focused on the business of British Airways and will look at how recession affects its global business in terms of sales, profitability, and sustainability of the business in the global market.

## RESEARCH QUESTION

To fully understand the study, the researcher will be guided with several questions which will shape the foundation and backbone of this paper. The research questions will guide the researcher to be able to achieve desired results of this study. One of the questions which the research will try to answer will be those associated with recession itself - including how it occurs, historical background, what are the signs and indications that the economy is indeed experiencing recession, and its variety of effects on

different businesses globally. Moreover, with much more intensive focus, the research intends to answer question regarding the business performance and status of British Airways in the global market. The study will answer questions including those associated with the indications that the business of British Airways is indeed affected by economic recession and what are the efforts including business strategies and redirection of business practices done by the company to combat the inevitable effects brought about by recession. The main question which the research will consider will include main focus on the significant effects of recession with British Airways in terms of sales, profit, and sustainability.

#### RESEARCH STRATEGY AND DESIGN

The design of research which will be utilized in the conduct of this study will be a conclusive research. The researcher opted for this research design because of the belief that such design will be the most useful and most appropriate in the process of gathering relevant information and in provision of the effects which the occurrence of economic recession has brought in the business of British Airways. The conclusive research is a formal and structured research in which data will be subjected to quantitative analysis[4]. By quantitative analysis, the research will make use of presentation of relevant figures especially those related to sales and profit in order to fully grasp the effect of recession in the business. Moreover, the type of conclusive research which will be utilized in the study is descriptive research. Descriptive research is one of the two types of conclusive research wherein the major objective is the description of something, which normally

refers to market functions or characteristics. In the case of this study, the researcher will describe the characteristics of the market of British Airways as reflected by the obvious results of economic recession. This will be made possible by providing a picture of the current situation of the company in the global landscape. The major assumption in which the research will operate is that these characteristics are brought about by the inevitable effects of global economic recession in every international business. It will include the description of various groups related to the critical operation of the business such as the consumers, salespeople, organizations, and the market areas. Through a description of these relevant groups, the researcher will find it easier to provide a look at the effects of recession as shown by the people who were affected the mostly by the occurrence of such situation. Such research design is also expected to provide an association of to until what degree is marketing variables associated with such economic situation.

The research strategy will attempt to answer the 6 W's which are associated with the conduct of a descriptive, conclusive research. The first is concerned as to who were considered the market of the business, which pertains to the bulk of passengers flying through British Airways. Another one will be what information are relevant and can be obtained on these passengers such as on why, if ever, they no longer fly the said airline. The research strategy will also attempt to delve into when such incident began to happen, where, and why it leads to such situation. Lastly, the chosen research design will also provide information as to the ways in which the company combats the recession.

## RESEARCH METHODOLOGY

The research methodology will include data collection and analysis which will provide a better understanding of the issue at hand. Because of the difficulty of obtaining first hand information from the groups which are directly concerned with British Airways including its market of passengers and the authorities or business divisions which are associated in the performance of business, the data will mainly come from secondary sources which will provide the backbone of the study. The primary sources of information will be useful in this study because they can provide first hand information on the problem because they have a direct connection to the business.

Nonetheless, such will be hard to obtain and will entail dedicated time to be extracted. With that, the researcher opted to make use of secondary data sources which will also provide the same quality of information as primary data.

The secondary data which will be collected in the purpose of this study will include those information extracted from secondary sources such as books, academic journal, scholastic articles, and information which will be derived from the website. It will include sources such as annual company reports and financial statements which will show relevant quantitative information which will prove the claim that the occurrence of economic recession has indeed affected the business operation of the company. This information were previously collected and used for other problems, other than the topic of the researcher. Nonetheless, to be assured that the use of such data is valid, the researcher will see to it that those data were used on studies which are of



the same context as to that of this research. These data will be carefully analyzed, including methods to verify the veracity of the sources and steps to assure that the data are genuine and indeed reflective of the situation of the company. There is a need to careful select the sources so as to be assured of relevant information usage. A thorough analysis of these data will assure the researcher of a more coherent study with findings which are true. The data will be analyzed to derive information relevant to the economic situation and to input actual variables in business operation. If these data are not carefully analyzed, a weak research will result. With that, the researcher will put an utmost importance to data analysis to be assured of reaching the purpose and objectives of this study as these data try to answer the relevant research questions.

#### VALIDITY AND COHERENCE

Aside from a careful analysis and presentation of information relevant in the completion of this research, the researcher also puts an unwavering emphasis on the validity and coherence of the information. This means that the data which will be presented must reflect only what is relevant or essential in the study - that is, economic recession - and will omit information which are invalid, or those which are related to variables other than recession. The data must be also coherent with the purpose of the study to avoid deviance from the topic at hand.

#### REVIEW OF RELATED CONCEPTS AND THEORIES

Currently, British Airways is celebrating 90 years of flying with pride, providing its wide array of clients with excellent services on their flights resulting to ultimate customer satisfaction. To fully understand the current business of British Airways, it is also of utmost importance that we take a closer look at its extensive history. The very beginning of the rich history of this airline can be traced back as early as the beginning of the history of civil aviation pioneering on the days after the First World War. After a period of 90 years since the world's first schedule air service which happened on August 25, 1919, there have been a lot of changes in terms of air travel. Each decade was marked by new innovation and developments which brought British Airways into its current position in the global market. The first decade of the operation of the company was marked by launching the world's very first international scheduled air service which flew between London and Paris. The second decade, however, was characterized by the merging of Britain's four major fledging airlines to provide a better service to the flying public. On the other hand, the third decade was marked by the merging of small air transport companies in the United Kingdom to form the British Airways Limited which became the primary competitor of the merger formed by the four companies during the second century. Furthermore, on the fourth, fifth, and sixth decade up to the present of the company's operation, more and more innovations had been on the rise to make the airlines known in the global market in terms of provision of excellent air services[5].

It is said that British Airways is United Kingdom's largest international scheduled airline with flights to 148 key destinations globally at best located airports. It is also said to be one of the leading scheduled premium international airline in the world. The principal business of the company is in the airport in Heathrow, which is one of the premiere airports in the world and serving a relatively large geographical area. During the end of the year 2009, it is said according to company statistics that they have already flown a total of 33 million passengers in different key destinations globally. During the same year, the company said that they have earned nearly a total of £9 billion in revenue which was almost 2.7% higher than the revenue which they have generated in the previous year. The traffic of passenger is said to have accounted to 87.1 per cent of the total revenue, 7.5 per cent is attributed to airline cargo and 5.4 per cent is constituted from other business activities of the airline[6].

The main activities which were carried out by British Airways in the course of its business operation include undertakings on both local and international scheduled air services involving carriage of the traveling public, and freight and mail and provision of ancillary services. The fleet of the company operates in different places in the global landscape with 38 networks in the America, 9 in the United Kingdom, 67 in Europe, 12 in Middle East and South Asia, 15 in Africa and 7 in Asia Pacific. These networks of operation of British Airways only go to show that the company has intensified operations all over the globe. Such also connotes that once economic trouble comes along the

way of their operation, it is indeed inevitable that the global operation on these locations will also be dramatically affected[7].

The occurrence of global recession has affected global markets and brought about bad performance for every global business. One of the most significant years in which the recession was felt in the global market was during the year 2001. When the World Trade Center bombing happened, the economy of the United States suffered and it sent shockwaves to different local economies which affected the global market as well. The effects brought about by recession did not only last during that year. Until the present, the effects of the said recession can still be felt by some while others have already recovered from the economic downturn in terms of realizable increase on their sales and profit. During the first month of 2009, it was declared that Britain was experiencing recession[8]. While some are actually trying hard to escape the adverse effects of recession, unfortunately for Britain its effects were highly realized and very visible in their economy. This was said to be one of the most unfortunate events in the history of the country's economy since the 1990's where it experienced the adverse effects of the episode of economic recession.

When the British economy was declared to be officially in recession during January 2009, the Office for National Statistics announced that the gross domestic product of the country's economy showed a decline of 1.5 per cent during the last quarter of the year 2008 and a .6 per cent drop during the previous quarter. Following the definition of recession, which connotes two quarters of consecutive drop in the gross domestic product of the country,

such statistics would have been enough to show that indeed the British economy is suffering from a recession, just like most economies in the global landscape. Prior to this occurrence of recession, the biggest drop in the gross domestic product of Britain is said to be during the 1980's. The recession brought about in Britain is said to be because of the direct result of the credit crunch in the global market in which manifestations were seen and felt as early as August 2007 and seen to be worsening during the autumn of 2008. The central problem is said to be the banks operating in Britain which is said to have invested their reserves into assets which were assumed to be illiquid, unsafe, and worthless. This uncertainty in the economic situation is said to be damaging into different businesses in Britain for reasons including: lack of credit opportunities which resulted into the companies' weakened abilities to hire workers, make new investments, and start innovative projects. This prompted various economic activities to slow down and cut back on the two main drivers of growth which include investment and employment[9].

Although recession was just declared in Britain during the year 2009, the early effects of such economic occurrence have been already felt by British Airways during the year 2001 in which the economic downturn in the United States have sent shockwaves towards other economies in the globe. During the 2001-2002 Annual Report which was released by British Airways, it acknowledges the fact that they have been on a bad year of operation as shown by their sales and profit margins. In the statement of the chairman of the company during that year, it showed that the company incurred a pre-

tax loss of 200 million pounds compared to the previous year in which they registered a profit amounting to 150 million pounds. To add to the consequences of the economic downturn, no interim dividend has been paid and the Board also recommended not paying any final dividend because they have been operating on a loss. The disappointing financial report in their annual operation that year did not at all surprised the shareholders for it was somewhat expected because of the obvious situation in the global economy. That year was also regarded as the worst in their operations, although it has not been the most difficult by far for the management. On that same year, the people working behind the company were also affected. There has been a significant 20 per cent reduction in the workforce of the company brought about by the economic crisis. Nonetheless, this reduction was done on a voluntary basis such as through elected severance and early retirement[10]. Moreover, also on the annual report for the year 2002, the Chief Executive Officer of British Airways strengthen the assumption that the company is experiencing financial crisis as brought about by the global recession. They considered that year to be the toughest in the history of their business and they also considered it as an impact of the terrorist attack in the United States affecting the general of the global economies. In their efforts to bring back the company in the landscape of profitability, they have formulated various strategies and policies which are all geared towards a better business performance in the upcoming years. They have formulated various activities in order to practice cost efficiency and used technology in order to develop a more convenient way for the public to be able to book their flights[11].

When the economy of Britain was declared to be experiencing recession during January 2009, in the Annual Report released by the British Airlines the occurrence of such has also been acknowledged as shown by their business performance on that given operating year. The company also recognized that the global airline industry is highly and fiercely competitive subject into heavy global regulations, and highly exposed to the changes which were evident in the behavior and confidence of the consuming public. They are even more challenged with the current economic situation - that is an economy which was suffering highly from the consequences of the occurrence of recession. The sharp declines in growth can also be highly associated with record prices in oil and commodity and the unprecedented financial crisis bringing about global recession. One of the most significant effects of recession in British Airways is seen on the market to which it caters. The most significant impact of recession in the airline company is reflected by its premium passengers who cut back sharply their travel spending in order to save money. Statistics shows a significant 2.8 per cent decrease in the traffic of premium passengers in British Airways. This is said to last longer because a recent survey showed that almost 47 per cent of businesses will incur fewer travels abroad in order to save. In addition to this, more passengers are opting to spend the holidays in the comfort of their own homes to cut back on costs[12].

Furthermore, in a statement which was released by the Chief Financial Officer of British Airways, he acknowledges the fact that during the previous year that their record profitability has put them into a condition in which they

can combat economic slowdown. However, with the recession greeting the year 2009, it proved otherwise as they have suffered from dramatic losses in terms of sales and profit making them face the sharpest downturn in the course of the history of their business. When they have incurred profit in the previous year, they said that they are in a good position to combat economic downturn and the perpetual increase in the price of fuel. Unfortunately such did not come true and they instead suffer from the consequences of the poor condition of the economy in the global landscape. In order to control the effects of recession, measures to be able to combat market, credit, capital, and liquidity risks have also been implemented. The over-all management of these risks is focused on the unpredictability of the financial markets as it seeks to minimize the adverse effects brought about by the occurrence of recession. More efforts have been extended by the management to be bale to combat the adversity of recession and to bring back profit in the operation of the business of British Airways[13].

The business of British Airways during the turbulent time of economic recession can be better understood by taking a closer look at the key performance indicators of the business. Because of the unprecedented downturn in economic conditions, the company was not able to meet their financial target. In terms of their financial operating margin, a loss has been incurred attributed to soaring fuel prices and the economic recession[14].

In December of 2008, the International Air Transport Association a 2. 5 billion dollars in terms of loss for the airline travel industry to be brought about by decrease in traffic because more people or travelers are cutting down on



their costs because of the economic crisis. These were brought about by current economic conditions. After the economic downturn brought about in 2001, the airline industry recovered during the year 2006 but that does not seem to be for long because on January of 2009, recognizable losses in terms of profit have been incurred. Many of the world's leading airlines, including British Airways, have been in poor financial health and are not well-equipped to combat the global recession.[15] The financial loss for the year 2008-2009 has been very drastic for the company's management and made them formulate strategies in order to combat the downturn. However, even though they are experiencing losses, they have not formulated any policy related to increase in air fare. The management believes that doing so will not help increase sales, rather it will just lower demand[16].

In the balance sheet which was released by the Annual Report of the British Airways, the total assets for the year 2008 totaled to 11, 229, 000 million pounds which was relatively lower compared to 11, 938, 000 million pounds during the year 2008. Moreover, their cash and cash equivalents for the year 2009 only totaled to 219 million pounds as against in 2008 where it was 433 million pounds[17]. These significant declines as reflected in the company's annual financial statements are enough testimonies to the fact that British Airways, just like any other company in Britain is indeed in the turmoil of economic recession.

The management of British Airways acknowledges the fact that it has been a very difficult year for the financially but they are doing well financially. For the operating year 2008-2009, the company was able to incur a loss before

tax amounting to 401 million pounds as compared to its profit before tax of 922 million pounds in the previous year[18].

In order to manage sustainability of business performance, the company is also geared towards various measures. One of which is to strengthen their name through their brand reputation. Their brand, being of significant commercial value, is taken well care so that it can be prevented from erosion and destruction from the public's perspective. Competition is also highly managed in order to achieve sustainability. The management has acknowledged the fact that indeed competition is very fierce in their industry. With that, they have formulated conscious efforts in order to get ahead of the competition and find their edge in the market. Moreover, other issues which were addressed in order to manage sustainability include employee relation, debt funding, management of environmental conditions, fuel prices and currency fluctuation, and deregulation among others[19]. In order to potentially manage sustainability despite an economy suffering from recession, the future direction of British Airways is also geared towards environmental related strategies which they hope will also increase their performance. The efforts of the company are focused towards adding value and enhancing their reputation in the global landscape while getting the trust of the shareholders and stakeholders in achieving a sustainable business[20].

Furthermore, to be able to combat the effects of such economic downturn, it is just but normal for British Airways and other businesses to invest on their intensive and conscious efforts to bring back profitability to the business. In

the undeniably incredibly tough environment in which the airline operates, a dedicated focus is given towards pulling the business through the immediate crisis as it embarks on immediate preparations for better economic times. They have developed strategies which were mostly based on an upgraded customer service, competitive cost base, corporate responsibility, perpetual plans for growth, and other strategies which aim to improve the way they do business[21].