

# [British and bails, d (1987) stated; "if the](https://assignbuster.com/british-and-bails-d-1987-stated-if-the/)

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BritishAirways is the United Kingdom based airline which is the largest airline basedon the fleet size (273) and second largest based on passengers carried as itserves 183 destinations including 6 domestic destinations. It became a part ofthe International Airlines Group (IAG), one of the largest airlines in theworld, in January, 2011 by merging with Iberia.  Only a few airlines dominate theairline industry in most countries and so is the case in the United Kingdom. The products and services offered are homogeneous in nature and the serviceproviders are price makers and not price takers. Therefore, British Airwaysfalls under Oligopoly Market. The products and the services such as onlineticket booking, priority boarding, complimentary amenities, fine dine and wine, in-flight entertainment, tissues, etc.

are similar to those of the otherairlines. As authors Peppers, Land Bails, D (1987) stated; “ If the oligopoly is to maintain its long-termposition, there must be substantial barriers to entry into the industry”. Entryand exit in the airline industry is a challenging task as there are manyfactors that one has to take into consideration and moreover, there are highfix costs such as buying aircrafts. Many economicfactors changed due to recession like rise in oil prices, taxation, interestrates, etc.

These factors hit airline industries and British Airways was one ofthe company among many other companies that was affected by it. In 2008, thecompany experienced a record profit but this growing profit was interrupted by therecession. The company had the worst financial performance for the year 2009. Its revenue increased by 2.

7% to £8992 million and the company experienced aloss of £380 million for this period. Due to the Great Recession the companylost its premium members, who have always been their priority, and thepassenger number declined by 4. 3%. However, the passenger revenue rose up by3.

1% to £7836 million. The company had to reduce the number of operatingflights as passenger number and the seat load factor were declining. Also, thefuel costs during this period inflated by 44. 5%. In2010, the revenue reduced by 11. 1%% to £7, 994 million and the companyexperienced a loss of £370 million for this period. The oil and fuel cost kepton increasing and eventually fuel cost became their primary cost. The companyhas never compromised with the fares but to keep up with their competitors andto maximise the revenue and minimise the loss they started putting up moreseats on sale.

This led to an increase in the seat load factor by 1. 5 points. Theyalso reduced the fuel and non-fuel costs 20. 10% to £2, 372 million and 6. 2% to£5, 853 million respectively. They replaced their fleet with more fuel efficientand comfortable planes to reduce the fuel cost more and to increase customersatisfaction. Their main strategy this year is to create a competitive costbase, which they succeed in doing. The company is cutting costs to stabilizethe performance of the company.

They reduced to manpower to 36832 which improvedthe productivity, reduced overtime, etc. So the employee cost reduced from£2, 193 million to £1, 998 million. One of the main strategy of British Airwaysis customer satisfaction and for that they launched a First cabin, new andimproved first class experience, with cosy beds, more space and sophisticatedenvironment which resulted them to bag their premium customers. On 21stJanuary, 2011 British Airways merged with Iberia forming InternationalConsolidated Airlines Group S. A (IAG) it’s parent company which handles themanagement and strategy part for both British Airways and Iberia. The revenuegrowth continued with this merger increased by 24. 9%. It relaunched Avios, atravel reward currency, which is a loyalty program for its frequent flyers inwhich flyers can collect and redeem points for benefits and services(Iairgroup.

com, 2011). This led to the growing premium traffic for BritishAirways which resulted in the increase of seat load factor to 78. 2%. It is alsobenefited from a tie-up with Atlantic Airlines over this period. The oil andfuel cost increased by 33. 7% (£3, 246 million)as there has been increase in the oil and fuel prices. Theemployee costs rose by 8.

9%( £2, 345 million). 2012 has been the year of partnershipsfor British Airways. It unified with British Midland Limited (BMI) with 20 new runningroutes from Heathrow. The customer – company relationship has bloomed this yearas British Airways    The company had the worst financialperformance for the year 2009 and 2010. The profit for British Airways in 2008was £680 million and the loss in 2009 and 2010 was -£375million and -£374 million respectively. According to Willie Walsh, chiefexecutive of British Airways, he saw no positive signs of an improving economicenvironment (Milmo, 2009).

But from 2011, as you can see from the above graph (Fame4. bvdinfo. com, 2018), the company was back on track makingprofits and providing satisfying services to its customers. Only a small losswas graphed in 2012 in the report due to Spain’s economic crisis (as the parentcompany was facing some broad architectural problems (Telegraph. co. uk, 2012).

Overall the company has emerged from recession and is performing well. Macroeconomicsstudy is important to draw conclusions whether the economy of the country isblooming or not by using different phenomena such as Gross Domestic Product(GDP), inflation, price levels, unemployment rate, etc. GDP is the monetarymeasure of consumption (C), business investment (I), government spending(G) andnet exports (NX) which means it is the market value of the entire finishedproducts produced in a country quarterly or yearly, excluding the householdwork and the things that do not have any market value).

Thegeneral formula for GDP is as follows -Y = C + I + G +NXAccordingto Investopedia, “ Inflation is the rate at which the general level of prices forgoods and services is rising and, consequently, the purchasing power of currency is falling.” Therefore, GDP and Inflation (CPI) go hand in hand. Whereas there is an inverserelationship between inflation (CPI) and unemployment which is demonstrated bythe Phillips Curve.

The GreatRecession (2018) caused these factors to fluctuate all over the world. From thegraph we see that in the United Kingdom it caused the inflation rate toincrease in 2008 and then decrease in 2009 but still the GDP year on yeargrowth declined in 2008 and 2009 by 0. 6% and 4. 3% respectively. This was causedbecause of the unemployment rate in those years as it kept on increasing andalso due to cost push which generated stagflation.

But over the period the GDPof the country peaked in the year 2014 by 3. 1%. There was a little fall in theGDP growth after 2014 but these fluctuations are common in the short run. TheGDP in 2017 Q1 and Q2 saw a growth of 0. 3% and Q3 grew by 0. 4% because of theslowdown of Brexit, while the economy grew by 1. 5%.  we can say that in the long run the GDP hasgrown and the United Kingdom is now stable and out of the grasps of recession.

UnitedKingdom does not follow Phillips Curve thoroughly. As you can see from thegraph, the inflation rate and the unemployment rate are not always inverselyproportional to each other. But in 2017, the inflation rate increased by 3. 1%and the unemployment rate decreased by 4. 3%.