

British and bails, d  
(1987) stated; "if the

[Business](#), [Industries](#)



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

are similar to those of the other airlines. As authors Peppers, Land Bails, D (1987) stated; "If the oligopoly is to maintain its long-term position, there must be substantial barriers to entry into the industry". Entry and exit in the airline industry is a challenging task as there are many factors that one has to take into consideration and moreover, there are high fixed costs such as buying aircrafts. Many economic factors changed due to recession like rise in oil prices, taxation, interest rates, etc.

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

7% to £8992 million and the company experienced a loss of £380 million for this period. Due to the Great Recession the company lost its premium members, who have always been their priority, and the passenger number declined by 4.3%. However, the passenger revenue rose up by 3.

1% to £7836 million. The company had to reduce the number of operating flights as passenger number and the seat load factor were declining. Also, the fuel costs during this period inflated by 44.5%. In 2010, the revenue reduced by 11.1% to £7,994 million and the company experienced a loss of £370 million for this period. The oil and fuel cost kept on increasing and eventually fuel cost became their primary cost. The company has never compromised with the fares but to keep up with their competitors and to maximise the revenue and minimise the loss they started putting up more seats on sale.

This led to an increase in the seat load factor by 1.5 points. They also 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 efficient and comfortable planes to reduce the fuel cost more and to increase customer satisfaction. Their main strategy this year is to create a competitive cost base, which they succeed in doing. The company is cutting costs to stabilize the performance of the company.

They reduced to manpower to 36832 which improved the productivity, reduced overtime, etc. So the employee cost reduced from £2,193 million to £1,998 million. One of the main strategy of British Airways is customer satisfaction and for that they launched a First cabin, new and improved first

class experience, with cosy beds, more space and sophisticated environment which resulted them to bag their premium customers. On 21st January, 2011 British Airways merged with Iberia forming International Consolidated Airlines Group S. A (IAG) it's parent company which handles the management and strategy part for both British Airways and Iberia. The revenue growth continued with this merger increased by 24.9%. It relaunched Avios, a travel reward currency, which is a loyalty program for its frequent flyers in which flyers can collect and redeem points for benefits and services (IAG group.com, 2011). This led to the growing premium traffic for British Airways which resulted in the increase of seat load factor to 78.2%. It is also benefited from a tie-up with Atlantic Airlines over this period. The oil and fuel cost increased by 33.7% (£3,246 million) as there has been increase in the oil and fuel prices. The employee costs rose by 8.

9% (£2,345 million). 2012 has been the year of partnerships for British Airways. It unified with British Midland Limited (BMI) with 20 new running routes from Heathrow. The customer - company relationship has bloomed this year as British Airways. The company had the worst financial performance for the year 2009 and 2010. The profit for British Airways in 2008 was £680 million and the loss in 2009 and 2010 was -£375 million and -£374 million respectively. According to Willie Walsh, chief executive of British Airways, he saw no positive signs of an improving economic environment (Milmo, 2009).

But from 2011, as you can see from the above graph (Fame4. bvdinfo.com, 2018), the company was back on track making profits and providing

satisfying services to its customers. Only a small loss was graphed in 2012 in the report due to Spain's economic crisis (as the parent company was facing some broad architectural problems (Telegraph. co. uk, 2012)).

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

The general formula for GDP is as follows  $Y = C + I + G + NX$  According to Investopedia, "Inflation is the rate at which the general level of prices for goods 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 inverse relationship between inflation (CPI) and unemployment which is demonstrated by the Phillips Curve.

The Great Recession (2008) caused these factors to fluctuate all over the world. From the graph we see that in the United Kingdom it caused the inflation rate to increase in 2008 and then decrease in 2009 but still the GDP year on year growth declined in 2008 and 2009 by 0.6% and 4.3% respectively. This was caused because of the unemployment rate in those

years as it kept on increasing and also due to cost push which generated stagflation.

But over the period the GDP of the country peaked in the year 2014 by 3.1%. There was a little fall in the GDP growth after 2014 but these fluctuations are common in the short run. The GDP in 2017 Q1 and Q2 saw a growth of 0.3% and Q3 grew by 0.4% because of the slowdown of Brexit, while the economy grew by 1.5%. We can say that in the long run the GDP has grown and the United Kingdom is now stable and out of the grasp of recession.

United Kingdom does not follow Phillips Curve thoroughly. As you can see from the graph, the inflation rate and the unemployment rate are not always inversely proportional to each other. But in 2017, the inflation rate increased by 3.1% and the unemployment rate decreased by 4.3%.