

INTRODUCTION

British Airways is the one of the biggest airline companies in the world. It is the fifth biggest passenger carrying overall. It is based in London's Heathrow Airport, which is the world leader for international airport. At present, as airline industry leader, it has a longer history and the route networks cover destinations in 133 countries with 373 aircrafts. It has 50,086 employees for the UK airline service. It is one of the biggest employers in the UK.

In recent years, British Airways has been making corporate loses. For example, in 2002, it has made a loss of £142 millions and the share price has been decreasing since 2000.

For this particular report, we analyse the external and internal environments in which British Airways is operating. We have summarised the SWOT of British Airways. Moreover, the future recommendations have been delivered according to the analysis above.

ENVIRONMENT ANALYSIS

EXTERNAL ENVIRONMENT

In order to evaluate the position of British Airways, the PEST and Five Forces analysis has been carried out to evaluate the marketing environment of British Airways.

PEST ANALYSIS

Political

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

After Bush announced the attack on Iraq, petrol prices have been increasing. As aviation fuel is a large part of costs of airline companies, the war in Iraq causes airline companies costs to increase.

Since September 11th, the airport security has become tougher. Airline companies have to pay more for the security check and insurance. Therefore, costs of airline companies are increasing.

National and international governments can affect airline industry by regulation and policies. Airline companies have to know not only the domestic the laws and regulations but also the international ones. Moreover, since airline companies provide multiple services to customers, they are regulated by various legislations and regulations. Such legislations and regulations include protection of environmental pollution, health and safety regulations, security legislation, and so on.

Economic

In recent years, the world economy has been in recession. The unemployment rates in most countries have increased. The number of worldwide tourist is in a trend of decreasing. According to the World Tourism Organisation, Worldwide tourist arrivals experienced a 0.6 per cent decrease, which is somewhat less than what was feared after 11 September.

	(million)		Growth rate (%)	Market share (%)	
	2000	2001*	2001*/2000	2000	2001*
World	696.8	692.6	-0.6	100	100
Africa	27.2	28.4	4.3	3.9	4.1
Americas	128.5	120.8	-6.0	18.4	17.4
East Asia and the Pacific	109.2	115.2	5.5	15.7	16.6
Europe	402.5	399.7	-0.7	57.8	57.7
Middle East	23.2	22.7	-2.5	3.3	3.3
South Asia	6.1	5.8	-4.5	0.9	0.8

Source: World Tourism Organisation (WTO) © *Data as collected by WTO September 2002

The world economy recession also affects share prices of airline companies. BA₁'s share price has been in a trend of decrease since 2001.

Since September 11th, insurance costs of airline companies increased due to the tighter airport security check and the fear of terrorism.

Social/cultural

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 service should be used.

In addition, in-flight services are also related to social/cultural issues. Airline companies should have a clear idea of the cultural issues of destination countries. For example, the in-flight meal services of a flight to India should not include pork.

Technological

Today, airline industries have used some new technology in aeroplanes. For example, British Airways invested a huge amount of money in Lotus and 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. Moreover, many airplane companies would like to use the Global Airline Inventory Network(SM), which is supplied by Boeing Company.

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.

Five forces

Competitive rivalry

The competition between airline companies is intense. 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 which includes a 20 per cent reduction in manpower (British Airways Annual Report, 2002). Also, the emergence of low cost airlines makes the competition tighter in the short distance travel area.

Threats of entry

Threats of entry of the airline industry are low due to the following reasons:

- ❖ The capital requirement of entry.

A large amount of capital is required to set up an airline company. For example, a 737-800 cost \$57.5-64.5 millions in 2002.

- ❖ Experience

Experience is important for an airline company. Such experiences include staff training and working; co-operation of each department; customer service and so on.

- ❖ Access to distribution channels

The existing airline companies have established their distribution channels for years, which is difficult for new entrants to break into.

Threats of substitutes

Since the 11th September, the airline industry has been suffering from the loss of customer confidence. Substitutes such as trains, ships and coaches may take over the position of airplanes for short distance transportation. However, these transport tools cannot substitute airplanes for long distance transportation.

The rapid development of technology is a threat of airline companies. According IATA's Corporate Air Travel Survey 2002, 37% of business travelers have used video conferencing in order to save money and time.

Buying power

Buying power of customers is high. Airline companies often provide over-complex offers to customers. Low cost airline companies e.g. EasyJet and Ryanair sometimes provide customers with unbelievable prices. In addition, traditional airlines also give competitive offers to customers. These factors increase the bargaining power of customers.

Power of suppliers

Airline companies have multiple types of suppliers, for example, suppliers of aircrafts, fuel and in-flight services. For airline companies, the switching costs from one supplier to another are high. Also, the brand of supplier is powerful. For example,

if the airline companies have Boeing airplanes, they have to keep the services and maintenance of their airplanes with Boeing.

INTERNAL ENVIRONMENT

Analysis of British Airways organizational environment, it has been considered by Value Chain and 7S framework.

The value chain

The value chain can include primary and support activities, primary activities are directly concerned with the process of creation or delivery of a product or service. It is supported and controlled by support activities, so support activities is very important within an organization. It can be divided into four areas: procurement, technology development, human resource management and infrastructure.

Procurement

The British Airways uses an e-procurement system; it can save time and costs in five operational areas: maintenance and engineering, fuel and fuel services, catering and cabin services, airport services and general procurement. Moreover, it can build up key supplier relationships.

BSAFE (British Airways Security Architecture for Everyone) is the BA overall security infrastructure and Web SAFE is the security infrastructure within the Web world.

BA will cut procurement costs over the next few months. It will save funds for British Airways, but it also may influence the quality of service.

Technology development

Passengers are willing to pay for quality products. British Airways have invested a lot of money in self-service products. These new products include designed seats with adjustable headrests and footrests, new design infant seats and personal video.

British Airways have invested a lot of funds in IT, so it can add value and improve BA's overall service and effectiveness in a very competitive industry.

Electronic ticketing that improves customer service, reduces costs, and provides faster and more efficient passenger processing.

The amount of de-icing fluid purchased in the UK has decreased.

Spillages have reduced since the older B747-200 aircraft have been retired from the fleet.

The material sent to the recovery facility is still increasing. It means the material recycling is not very good.

Human resource management

One of the policies in British Airways is promote equality of opportunity in employment regardless of sex, marital status, race, colour, disability and nationality.

British Airways are committed to build good employee relationships. Strengthen the communicating and efficient problem solving among the employees, it can well inform about the business and the airline industry.

Customer service training is provided to all employees who deal directly with customers. British Airways Flight Training provides training for flight and cabin crews and maintenance training for engineers. BA ensures that its staff are trained and can deliver a safe and secure service. It also focuses on training in good people management.

BA has improved both performance appraisal and a linked reward system.

Infrastructure

As mentioned before, British Airways has worldwide routes and London's Heathrow Airport is BA's main base; it is also the world's leading international airport.

Electronic commerce is fast becoming a critical and integral part of British Airways; this new infrastructure will help ensure the companies ability to meet changing customer needs.

Heathrow's ability to offer a wide choice of destinations and frequencies for the business traveller will continue to be constrained by limits on the number of take-offs and landings that the airport can handle. (see appendices, exhibit 1)

Primary activities Strategy

1. Cost efficiency

The business strategy of British Airways is to change the short haul pricing structure and schedules, and to reduce costs.

British Airways is reducing its supplier base drastically as part of its plan to cut costs during the next two years. (Damage relationship with supplier)

Cost reduction plan also includes a 20 per cent manpower reduction. (Lose employee confidence)

2. Fleet and Network Strategy.

BA current strategy aims to reduce BA exposure to unprofitable market segments "C short-haul and connecting leisure passengers "C while strengthening BA's position in profitable market which depend heavily on business travel to / from UK.

3. Product and service Improvements

Alongside this fleet and network strategy, a programme of product enhancements is being implemented to increase the attractiveness of BA to its core UK-based business customer base. These product changes include the introduction of the new "flying bed" for Club World on long-haul aircraft and the introduction of "world traveller Plus" "C a business/economy product. Configuration and product changes, particularly the new Club World "lounge in the sky" flat bed, also reduce the number of seats on offer, with reductions focused on the world traveller cabins.

Style / Skill

Direct contact with all staff is considered so important that "down route" briefings are developed to ensure that mobile and isolated staffs are not neglected. "Passenger group Co-ordinator" was introduced to make staff feel happier about the working environment and as a result facilitate the production of emotional labour. Awards for Excellence and an Employee Brainwaves programme encouraged staff input. In order to shape staff emotions, winning for Customers, A Day in the Life, To Be the Best,

Leading in a Service Business and Leadership 2000 are included in the Putting People First and Managing People First.

Skills training is also carried out in all BA areas. The airline's Cranbank centre, near Heathrow, is one of the largest airline training establishments in the world. Its flight crew unit houses 17 simulators. Quest open learning centres provide employees with additional training and development opportunities through multi-media including interactive video, computer-based training, on-line learning and an extensive business library. BA continues to recruit people into the business to boost its drive to enhance customer service. This could be strength of BA

System

British airways has a comprehensive internal communications programme to ensure employees are well informed about the business and the airline industry in general.

Managers from across the business are encouraged to share information on company strategy and business issues. This information is then communicated through departmental forums thereby ensuring that each part of the business understands the company's goals and objectives and the part they play in delivering these.

BA also supplies a contact system to their customer. Contact BA enables customers to use their preferred method of communication to contact BA 24 hours a day. It is a strategy to establish the right blend of people and technology, champion the adoption of online means, reducing costs, in each of BA's customer segments from trade to the executive club the general consumer. Contact BA is made up of the following:

1. Direct sales;
2. Customer care & information "C the voice of the airline;
3. Customer relations .

This is strength of BA.

Share value

From long term vision, BA will face lots of problems.

British Airways will not find it easy to recover. The company is under assault on all fronts.

First there is the global slowdown in the travel industry.

Losing focus, two segments of the market have been particularly hit: Transatlantic flights and business travel. And that is BA's core problem. In its attempts to claw back into profit, the company focused on exactly these two groups of passengers.

There is also weakness to BA

THE COMPETITION OF BRITISH AIRWAYS

THE COMPETITORS OF BA

In short routes, the low cost carriers are British Airways' main competitors, such as Easy Jet and Ryanair. Their strategy is, offering stunning pricing to the passengers, which excluding the meal service in order to reduce the cost. They are in the best of the Low Cost operators.

By contrast, there are more competitors in long routes for BA. The major competitor is Virgin Atlantic in the U.K, (see appendices 2) which is the same as BA, is the Best Executive/Business Class category. also, as we can see from the news in business time. BA and Virgin are in position to do battle for a stake in SA, Virgin is major competitor for BA from 5 years ago. Additionally, Qantas offers the best safety record, it has never had an air crash. America airline used to be a strong competitor, however, it became one of the worst hit by the terror attacks during 11th September 2001. Air France airline, Lufthansa airline and Swiss Airline also have their own competition advantages, such as the location advantage, being in the middle of the Europe

British Airways competitors

Budget, short Routes Airline	Better service, Long Routes Airline
Easy Jet	Virgin airline
Ryanair	Lufthansa airline
Go	America airline

Jetblue Southwest Airline	Qantas Air France Swiss Airline
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COMPETITIVE ADVANTAGE

As we know the BA has a good reputation on its service. It provides high quality services, advanced facilities to satisfy the customers. On the other hand, to against low cost airlines, it also has launched e-commerce in order to attract new customers, However its still focus on its service, for example in dealing with the hot topic-the pneumonia at present, BA has cut the numbers of the cabin seat; press on with the checking-in systems for security, and so on. So, the competitive advantage position of the BA is focus on differentiation.

The table below has explore the position of BA clearly:

Broad	Cost leadership	Differentiation
Narrow	Focus	Differentiation Focus

↓ ☆

Opportunity for BA

Alliance gain competitive advantage

Firms enter alliances for competitive reasons. Alliances allow firms to gain economies of scale in production and marketing; they can also overcome regulatory barriers and facilitate access into new markets. British Airways co-operates with other airlines forming different types of alliance, the savings are enormous, including common purchasing of planes and equipments; rationalization of maintenance and training, and

the ability to transfer aircraft from one place to another in order to match supply with demand.

Government and airports

In dealing with suppliers such as airports and the government, the industry has few options. Taxation and deregulation have already revealed the significant influence the government has on the sector. The lucrative routes or slots are scarcely available. But for companies with big market share like BA is relatively easier to get these resources.

BA emulate the low cost structures

The economy recession has reduced the purchasing power of passenger. However, this has increased the demand of low cost airlines. BA is changing their strategy, they are repositioning themselves, developing new brand, using the internet to launch a cut-price travel war against low-cost airline, offering big discounts on tickets bought online, an attempt to emulate the low cost structures of airlines. Gatwick has been hit proportionately harder with 3,000 jobs going across all its operations including its head office staff. BA is almost pulling out completely from long-haul services at Gatwick reducing the number of destinations from 41 to 15 and several short-haul routes have also gone. BA has also signalled that Gatwick will become the centre of a re-jigged European strategy, which will see it fight it out with the budget airlines. And where BA is pulling out of take-off and landing slots, the likes of Easy Jet, which is starting several services at Gatwick, its ready to step in. (*Worker's daily*) Although BA can't cut their price to as low as Easy Jet, considering their reputation and service, the customer might to find the balance between price and service.

Threats

The economy depression influences on customer's demand

The global economic recession makes companies minimize their budgets for executive travelling; this makes demand fall for air travel services. And it leads to big airlines like BA ground planes and make staff redundant.

Terrorist attack on Sept. 11

The terrorist attacks in the US had plunged Europe's major aviation industry into a financial crisis. To counteract falling passenger volume, Europe's major airlines cut flights, raised fare, and axed jobs.

Low cost airlines

Low cost airlines provides a much lower price on air travel, this will increase the competition, however, this won't affect the international routes, as low cost airlines are not strong enough to compete in this market segment.

Attack to Iraq could cause fuel crisis

The attack to Iraq could cause the increase of fuel prices, as we know Iraq is a big oil exporting country.

Concorde

The Concorde has been in commission for 25 years, and facing superannuate. They have become more and more unreliable and difficult to maintain. Also, it could be difficult to find substitute for this kind of plane.

CONCLUSION

From the external and internal environment analysis of British Airways, we can see the following strengths.

- British Airways is one of the biggest airlines in the world. Branding strategy has been used.
- It has one of the best airline website in the world. E- BA is also responsible for all customer facing online activity. Such as online tickets booking.
- Partnership within world wide with excellent customer service. Also joint venture with some holidays agency, such as Thomas Cook holidays
- A global distribution team, which is responsible for making BA easy to access BA's business.
- Continent of airline operations, British Airways Engineering is a world leading aviation maintenance organisation providing full support for the aircraft fleets of BA and for the aircraft of a number of other customer airlines.

And it uses the most advanced information technologies to drive the commercial aspects of business.

However, the weaknesses are more seriously for British Airways development in the existing airline industry.

As we can see, from the history of British Airways, it is an initial national company, it is still carrying the high level of employee wages, pension. It is included in the company cost. According to the annual Report of BA in 2002, £2,329 million was spent on the employee cost, which is the highest percentage of the operating expenses. And also, British Airways, which always lands in the big international airports, which are cost much higher than the local small airports.

RECOMMENDATION

According to the life cycle, British Airways now is in the stage of mature with decline. In previously analysis, we spot its weakness and opportunities and depend on its business strategy, some recommendations for British Airways have been concluded as follows:

- Stand on the strengths

Continue to improve customers' services (such as: lounge in the sky, and reduce the number of seats on offer, and so on)

- Develop opportunities

Continue to enter alliances for gain more competitive advantage (for example: BA has dropped its partnership with American airlines, as the consequence, BA needs to look for new partners in order to gain more competitive advantage and reduce risks.)

- Against weakness

1. Development its Human resource manage, reducing its employee expenditure
2. Reducing booking process (online booking)
3. Cut suppliers base

- Defence Threats

1. Develop the short-haul service at Gatwick to attract more low cost carriers
2. Improve the airport security systems

