

Strategic Analysis of British Airways

Executive Summary

The airline industry is a highly competitive and mature industry that comprises of legacy carriers such as British Airways, Lufthansa and Virgin Atlantic which traditionally provided full service flights, and low cost budget carriers such as Ryanair and EasyJet which provide a no-frills service (Byrne, 2011). Due to market deregulation in the UK, liberalisation of the EU markets and open sky agreements between the European Union and other countries, both market opportunities and competition have intensified for legacy national carriers such as British Airways, as more of its market share has been encroached upon by an increasing number of market rivals and other market forces (Berechmann and Wit, 1996).

Important market dynamics that have resulted in the current industry structure include the emergence of the low cost budget carriers which introduced a different business model into the airline industry by redefining cost structures and operational strategies that were previously taken as industry standards (Wild, 2014). For example, through a radical cost cutting approach, Ryanair and EasyJet were able to democratise air travel and drive down the prices of airline tickets. This involved removal of standard extras such as inflight meals and entertainment, baggage handling, insurance and seat reservations, which were usually provided by as free complimentary services within the ticket price; charging for these services instead and offering customers the option of purchasing flight tickets at very attractive reduced prices (Frankel, 2004). This essay provides strategic analysis of British Airways in terms of its competitive environment and current challenges. The sections covered in the essay include company overview, external and internal environmental analysis based on the PEST Framework and SWOT analysis respectively. The essay also provides TOWS framework analysis which identified market development and market diversification strategic options for British Airways based on the SAF assessment of the recommended option.

Strategic Review

Company overview

British Airways is a global UK legacy carrier, with the largest fleet of aircraft operations in the UK (British Airways, 2017). The airline has a reputation for its focus on customer service, modern business operations, and pioneering technologies for improving customer flight experiences such as happiness blankets powered with fibre optic technology to provide better inflight sleep experiences for customers (LUXE, 2017). British Airways strategy is identified as a differentiation strategy based on Porter's (1980) framework for classifying competitive business strategies. According to the model, the differentiation strategy consists of a competitive strategy that achieved superior performance over competitors by offering more value, quality, innovation or uniqueness (Porter, 1980). In the case of British Airways, its differentiation strategy is based on quality flight experience and superior customer service (British Airways, 2017). However, the airline also faces stiff competition from low cost budget airlines, in addition to catering to people who would normally not have been able to travel by air, protracted economic recession has made these budget airlines more attractive to a larger customer base, encroaching into traditional market segments that were traditionally dominated by British Airways (Frankel, 2004; Needle, 2010). The budget airlines have also since shifted from offering only no frills services and single class tickets to offering improved customers services, priority and more privileged ticket classes that provided more comfort and travel efficiencies to business class travellers, which also directly competes with British airways for this segment of customers that were traditionally BA favourites (Future Travel Experience, 2014). In order to cope with the increased market competition and its higher cost base and reduced profit margins in relation to the low budget airline, British Airways has had to rethink its strategies by starting to offer reduced frill services and baggage charges on some of their flight routes (Denton, 2016).

Environmental Analysis

PEST Analysis

The PEST framework is used to carry out analysis of British Airways' external environment in terms of the political, economic, social and technological factors that are affecting its operations (Johnson et al., 2014).

Political

British Airways is affected by the government policies and political situation of the various markets in which it has operations. For example it has to comply with anti-terrorism security legislations and air control laws that have come into place since 9/11 terrorist attacks and the London bomb attacks that took place in 2001 and 2005 respectively (Blalock et al., 2007). Britain's exit from the EU may also affect business operations due to the delays, and immigration disputes that may arise and the changes to passenger immigration arrival and departure procedures for flight between the UK and EU countries (Fan, 2019).

Economic

British Airways is affected by the general economic conditions and the disposable income that is available for people to spend especially with regards to discretionary spending. For example, the 2008 economic crisis which affected both households and businesses caused many individual and business flyers to favour budget flight options which offered more value for money. Furthermore, there has been a general decline in the number of passengers compared to the pre-recession period (Borko, 2018). The lowered value in the strength of the Pound Sterling in relation to the Euro and US dollars also has significant implications for the airline's profits as though the weakened pound may encourage tourists to travel to the UK, it is also likely to significantly increase costs of its foreign operations. Another major economic factor that affects its profits is the price of fuel (BBC News, 2016)

Social

The demand for British Airways' flights are affected by social trends such as tourism, holidays and social events that require people to travel from one city or country to another. Furthermore, the wide availability of the internet means that customers can now compare flight prices from different providers easily which affects the way the company prices its flights. Current social distancing as a result of the Covid-19 pandemic has also resulted in a halt of flights and closure of the airline's operations at Gatwick airport (BBC, 2020).

Technology

Technology is an important aspect of British Airways' operational strategy in terms of its online booking system and check in services. Furthermore, it offers its customers convenience, flexibility and personalised flight services through mobile app technologies that customers can access anywhere at all times (Caswell, 2018).

SWOT Analysis

The SWOT framework (Johnson et al., 2014) is used to carry out analysis of British Airways internal environment in relation to the strengths and weaknesses of its operations and the threats and opportunities that are in its external environment.

Strengths

British Airways' strengths are identified to include its long history of reputation and competence in providing quality customer service as well as its premium global brand. It also has strong profitable strategic alliances such as its membership of the IAG Group and the One World Alliance, which provides it with wider network accesses, advanced technological resources and a bigger passenger database through code sharing partnerships (British Airways, n.d.; IAG, 2020).

Weaknesses

A major weakness of British Airways is that due to its large fleet operations it has higher operational costs than most of its competitors, including its low cost rivals. This is further compounded by its differentiation strategy which is based on quality, innovation/value added services and exceptional customer services (British Airways, 2017). The airline also has a history of labour issues due to frequent strikes by its pilots and cabin crew over pay disputes resulting in disrupted operations and loss of profits (BBC News, 2019). Recent dispute over pilots' salary resulted in cancellation of more than 2,325 flights (Topham, 2019).

Opportunities

Given current poor employee relations history, there is opportunity for British Airways to improve in this area, which will help to reduce operational disruptions and improve reliability of its service. Furthermore, in order to improve its market share, there is opportunity to grow in the short-haul market through forming of the right strategic partnerships with low cost budget airlines that specialise on such routes.

Threats

Shrinking market share and increased encroachment from budget rivals such as Ryanair and EasyJet remain a serious threat for British Airways. Another serious threat relates to the Covid-19 pandemic, which has greatly reduced international travel and general movement of people (BBC, 2020). Deepened recession in the aftermath of the pandemic is also likely to affect disposable income of both businesses and consumers. Furthermore, the current social trend of meeting online and attending social events online through popular technologies such as Zoom, may have a more lasting effect on people's view about travelling, which will reduce the need for both domestic and international travel and flights (PMGroup, 2020).

Recommendations for Future Development

TOWs Analysis

The TOWS framework is used to generate the different strategic options that can be pursued by British Airways for the future (Table 1). This includes SO options which show how the airline can use its strengths and opportunities for future advantage, ST options, which shows how the airline can use its strengths to counter the threats in its environment, WO options, which shows how the airline can apply opportunities in its environment to minimise its weaknesses and WT Options, which shows how the airline can aim to reduce its weaknesses and threats.

Table 1: British Airways TOWS Matrix

	Strengths	Weaknesses
Opportunities	<p>SO: Linking strengths with opportunities</p> <p>SO 1. Expand market share in short-haul segment through code-sharing partnerships with low cost budget airlines that already specialise on such routes.</p>	<p>WO: Minimising weaknesses with opportunities.</p> <p>WO 1. Arrive at amicable agreement over pilot and cabin crew remuneration to minimise disruptions and profit loss.</p>
Threats	<p>ST Options: Minimizing threats with strengths.</p>	<p>WT Options: Minimising weaknesses and threats.</p> <p>WT 1. Diversify into alternative travel solutions such as advanced virtual meeting solutions for business travellers that can be offered to business class customers and virtual reality environments that can offer entertainment experiences such as parties, festivals to users in any location of their choosing.</p>

SAF Evaluation of Recommendations

In this section, the generated options are evaluated using the Suitability, Acceptability and Feasibility (SAF) framework (Johnson et al., 2014).

Table 2 SAF Evaluation of TOWS Recommendation

Strategic Option	Suitability	Acceptability	Feasibility
Market Development	Yes	Yes	Yes
Expand market share in short-haul segment through code-sharing partnerships with low cost budget airlines that already specialise on such routes.	Will improve market share growth	Will provide access to additional customers who mainly travel short haul	British Airways already has experience of code sharing with other partners in long haul
Operational Improvement	Yes	Yes	Maybe
Arrive at amicable agreement over pilot and cabin crew remuneration to minimise disruptions and profit loss.	Support strategy providing quality service	Satisfaction of stakeholders needs including pilots, customers and shareholders	May require additional significant investment that may be difficult in short-mid-term due to current Covid-19 crisis.
Market Diversification	Yes	Yes	Yes
Diversify into alternative travel solutions such as advanced virtual meeting solutions for business travellers that	Will help the airline to recapture market share loss due to Covid-19 cultural changes	Will minimise losses to British Airways and stakeholders	Significant investment in technology will be required. Furthermore, it may lack current technical capabilities in this area. However, this can

<p>can be offered to business class customers and virtual reality environments that can offer entertainment experiences such as parties, festivals to users in any location of their choosing.</p>			<p>solved through strategic partnerships or acquisition of appropriate technology company and expertise.</p>
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Conclusion

The SWOT framework was used to perform an analysis of British Airways with respect to its internal strengths and weaknesses and the opportunities and threats in its environment. Subsequently, the TOWS framework generated strategic options for British Airways based on the SWOT analysis that was performed. The TOWS matrix indicated that SO 1 market development and WT I market diversification options would be viable future options for the airline to improve its market performance (Table 1 & 2). With respect to strategic option, WO1, which was an operations improvement strategy, this was also identified as suitable and feasible. However, with regards to its acceptability, it was not clear whether BA will be able to fulfil such option in the mid-long term given current Covid-19 pandemic financial crisis.

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