



Oxford Cambridge and RSA

A Level Business

H431/03 The global business environment

Resource Booklet

Friday 23 June 2017 – Afternoon

Time allowed: 2 hours



INSTRUCTIONS

- This is a Resource Booklet.
- You should refer to it when answering the examination questions which are printed in a separate booklet.
- The business described in this Case Study is a real business.

INFORMATION

- This document consists of **8** pages. Any blank pages are indicated.

British Airways

EXTRACT A – A brief history of the company

British Airways (BA), is the 'national airline' of the UK and its largest airline when measured by number of planes (fleet size). When measured by passengers carried, it is the second largest in the UK (easyJet is the largest). BA was privatised in February 1987. This was part of a wider plan by the Conservative government to move publicly owned businesses into the private sector. The airline soon expanded with the acquisition of British Caledonian in 1987, Dan-Air in 1992 and British Midland International in 2012.

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BA is a founding member of the Oneworld airline strategic alliance, along with American Airlines, Cathay Pacific and Qantas. The alliance has grown to become the third largest in the world.

BA merged with Iberia in 2011, creating the International Airlines Group (IAG). IAG is the world's third largest airline group in terms of annual revenue and the second largest in Europe.

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Adapted from https://en.wikipedia.org/wiki/British_Airways (as at 30/11/2015)

EXTRACT B – British Airways tries to start again

Threatened by falling demand and rising fuel prices, BA has turned to radical plans to cut the cost of cabin crew staff to create a super-lean airline within its 90-year-old structure. If BA does not choose to remove the old loss-making model altogether, then it may have to build a new one alongside it. Can it succeed?

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The plan called for 'new crew recruited on new terms and conditions into a separate fleet'. This 'flatter organisation' would comprise crews which are no longer organised into separate groups dedicated to long-haul and short-haul service. According to BA, which is trying to cut £140m a year from cabin crew costs, this separation of crews is costly and inflexible. The current seniority system, where promotion is based on length of employment, would be changed so senior staff can be recruited from outside the airline. Average pay would also be brought in line with staff at Virgin Atlantic, who are only paid 50% of BA staff wages.

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"Change is not the issue. How it is implemented has been the difficulty from the beginning. BA has tried to impose radical changes on skilled, loyal and professional employees. This is no way to run a successful airline. Cabin crew are prepared for change – we have proposed saving measures in cabin crew operations," says a BA employee.

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Some cabin crew members see the new plans as a way of introducing lower paid crew, working to a more demanding schedule, who will ultimately take over the most profitable routes. If that happens, a strike by 'old crew' could be ignored because the strikers would be operating the least profitable parts of the network.

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Between 1999 and 2008 the air industry's total operating profit was £27.4bn. This was a (net) profit margin of 1.1%. A quarter of that profit was generated by three low-budget carriers: easyJet, Ryanair and Southwest Airlines. The figures show that even in times of economic growth, airlines have struggled to operate in a manner that justifies investment in their long-term viability. A failure to change rapidly enough during the good times has affected many airlines during the recession. BA is among them.

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A BA spokesperson said 'thousands' of people within its 38 000-strong workforce have already made a contribution to reducing costs. "Our pilots have agreed a pay cut. Our engineers

have agreed more efficient ways of working. A third of our managers have accepted voluntary redundancy. And nearly 7000 colleagues volunteered for salary reductions. Our cabin crew are known for their professionalism and skills, but it is essential that Unite (the only trade union for cabin crew) takes part in the cost reduction process in a meaningful way.”

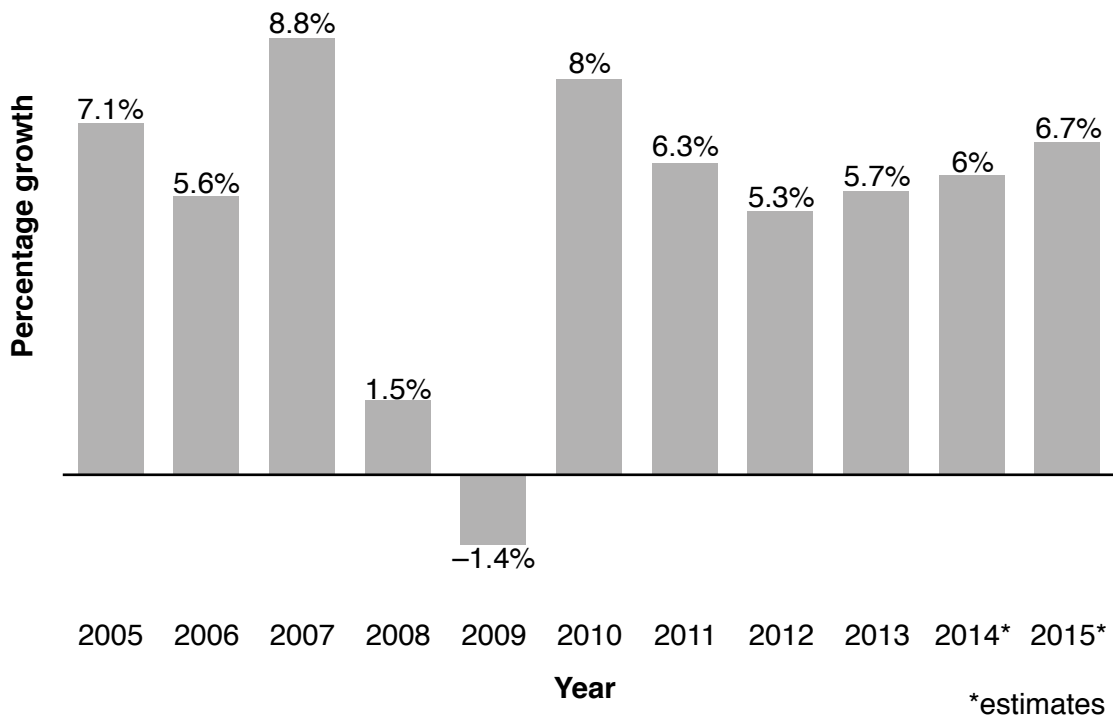
40

The average pay of an easyJet cabin crew member is £20200. This can be compared with average pay of a BA cabin crew member of £29900. The arrival of the low-cost carriers forced established airlines to move as close as possible to the low-cost model. At BA, the average cost of flying a passenger one kilometre is 8p, according to analysts' estimates. At easyJet they estimate it is 5p per kilometre – allowing it to charge lower fares. Staff and fuel each account for a quarter of airline industry costs. “You cannot change fuel costs, so you have to cut labour costs.”

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Adapted from 'British Airways tries to start again' – The Guardian 31/01/2010

EXTRACT C – Annual growth in global air traffic passenger demand



Annual growth in global air traffic passenger demand from 2005 to 2015 – © Statista 2015

EXTRACT D – BA's restructure puts marketing at the forefront of its business strategy

BA announced a split of its marketing team. Part of the team will join the commercial department and the other part will form a new customer experience team which focuses on the travel experience. The move sees the brand follow a trend for big businesses putting customers at the core of their strategies. easyJet has taken a similar approach in the past year.

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BA brand perception is strong in the UK. Brand perception measures the brand's index score by looking at consumer perception of quality, value, reputation and satisfaction. BA has a score of 38.7, coming first in a ranking of 26 airlines. The list includes other major airlines such as Virgin Atlantic, Etihad Airways and easyJet.

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Financial results have also been positive. In its latest results, BA made a profit of €607m, compared to €477m the previous year. The airline industry is very competitive, so a focus on customers when BA is ahead of the game will only enforce their leadership position.

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A range of competitors have also taken a customer orientated approach. easyJet and Ryanair are moving out of their traditional 'low-cost' roles as their customer focus has led them to providing new services for business flyers. Virgin Atlantic has also launched the 'Let it Fly' campaign that focuses on premium service, which they hope wealthy consumers will be happy to pay more for.

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*Adapted from 'BA's restructure puts marketing at the forefront of its business strategy'
– Marketing Week 22/01/2015*

EXTRACT E – Fury as BA regains monopoly on flights between Heathrow and Scotland

In September 2015, BA regained its monopoly on flights connecting Scotland with London Heathrow for the first time since 1982. The final Virgin Atlantic flights departed on September 26, following heavy losses. BA told The Independent newspaper that it will not add extra flights to make up for the exit of Virgin Atlantic. Consequently, more than 20 000 seats a week between Scotland and Europe's busiest airport were lost, pushing up fares and cutting choice for travellers.

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Adapted from 'British Airways: Fury as airline regains monopoly on flights between Heathrow and Scotland' – The Independent 27/09/2015

EXTRACT F – Mitigating our environmental impact

At BA we are committed to addressing our environmental responsibilities. While the air transport services we provide are vital to the social and economic wellbeing of the UK and the countries we serve, they also have an impact on the environment. By doing all we can to minimise these impacts, we aim to set the standard in responsible air transport. We have an extensive environmental programme covering not only our carbon emissions but also the important areas of noise, air quality and waste management.

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Adapted from <https://responsibleflying.ba.com/environment> (as at 10/01/2016)

EXTRACT G – easyJet and BA named worst airlines for flight delays

easyJet and BA – two of Europe’s busiest airlines – have had the most flight delays in Europe, according to claims in a new report. The report analysed the on-time performance of many airlines and airports. London Heathrow was named as the worst airport in Europe for flight delays.

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The report included nearly 40 airlines, from large businesses to small regional firms that have far fewer flights and, therefore, fewer cancellations or delays. It found easyJet had the most delays with nearly 7000 between October 25 and November 25 2015. BA was second with just over 4200 delays, although both BA and easyJet said the report’s findings are inaccurate.

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Adapted from ‘EasyJet and BA named worst airlines for flight delays’ – Mail Online 09/12/2015

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