

British Airways: International Marketing

A Report

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1.0. Introduction

The focus of this report is on British Airways (BA). This airline is a part of the International Airlines Group (IAG). It is a leading international airline which operates in Europe and in the US as its primary business operation zones. The organisation is headquartered in Harmondsworth in the UK and operates network passengers and cargo operations. The key place of business is London, as it operates from Heathrow, Gatwick and London City airports. As of 2014, the organisation operates flights across 157 destinations and 194 routes using 278 aircraft (BA, 2015). The focus of this report is on the non-stop service between San Francisco and London. BA is looking to provide high quality of service with the jumbo airliner, A380. The route, Flight 286, will operate from Thursday to Monday and will provide in-flight entertainment options and comfortable cabins for those who like to travel with luxury and comfort (Clarke, 2015). This flight route is recently introduced. Therefore, the purpose of this report is to examine how BA can promote business across the route. This report will examine the international marketing strategies of BA and, where it applies, the specific route related marketing approach.

2.0. Report Deliverables

- a. To present a detailed market environment and competitor assessment.
- b. To assess the current international market strategy of British Airways and its implication for the San Francisco-London route.
- c. To assess the customer and product market segments and the associated positioning strategy.
- d. To determine the key market mix factors which are adopted by British Airways.
- e. To examine the cost effectiveness of existing marketing and promotional factors and suggest ways to reduce the cost of marketing.

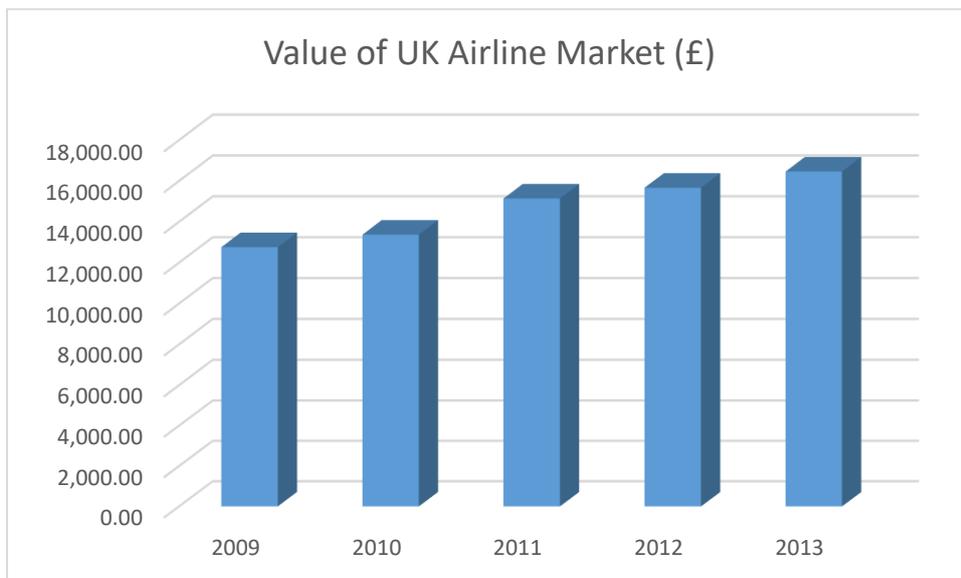
3.0. Market and Competitor Analysis

3.1. Market Size and Concentration

According to Marketline (2014), the UK airline industry generated a total revenue of \$25,731.5m in 2013, with a CAGR of 6.6% from 2009 to 2013 (Figure 1). However, in the

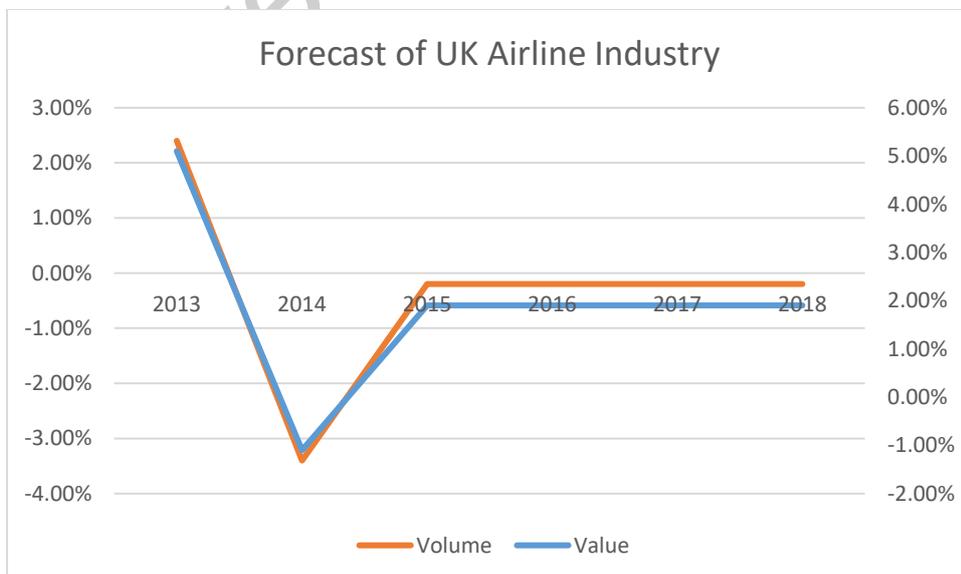
same period the French and German airline market showed higher growth at 9.1% and 7.6% respectively. The international airline market accounts for 83% of industry volume. The UK accounts for 14.2% of the European airline industry, along with Germany, making the countries the leaders in the market in this segment. The compounded annual growth rate in terms of value in the UK market in the period 2013–2018 is at 1.3% and a negative growth of -0.9% market volume (Figure 2).

Figure 1: Value of UK Airline Market (£)



Source: Marketline

Figure 2: Forecast of UK Airline Industry



Source: Marketline

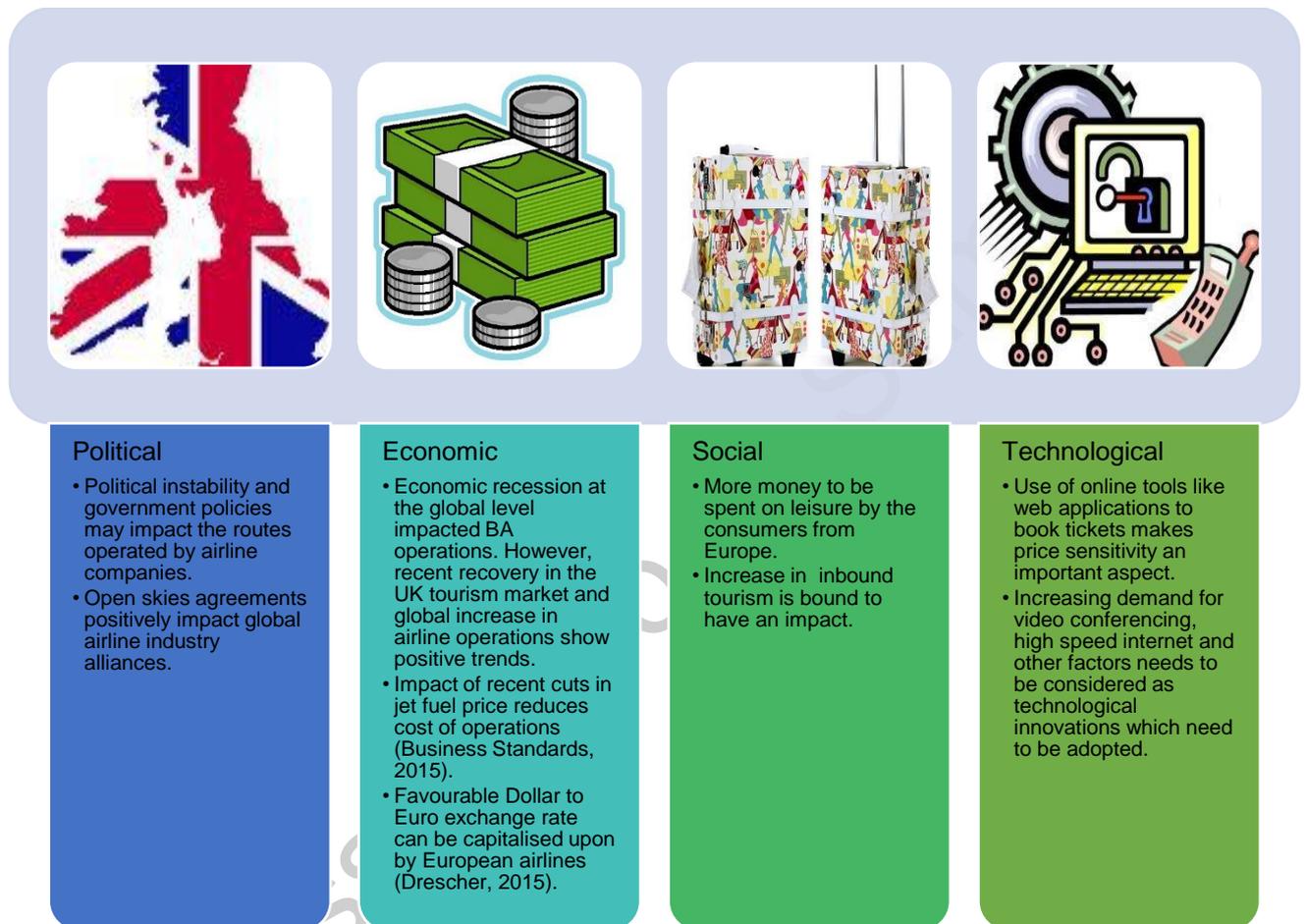
From the above assessment, the UK airline market may have reached maturity with a projected decrease in market volume. In such conditions, British Airways (BA) should look to improve its customer service and its capabilities to retain its market volume and concentration. The following section will examine the external environment and the industry level factors.

3.2. Macro-Environment

An assessment of the market environment of the airline industry is important as the industry is dependent on global financial stability. For instance, Frank and John (2011) identify that in 2009–2010 the global economic crisis led to multiple mergers between different groups, including Sky Europe, JAL and Fly Globespan, who had to merge as the costs of operation were increasing significantly. Therefore, economic factors strongly impact the functioning of the global airline industry. For BA, a key political factor which helps in improving its operations is the open skies agreement. According to a report by the BBC (2009), the open skies agreement has helped BA launch direct services from the US to Europe, with daily flights to New York. This may have contributed to the increasing focus on the LA-San Francisco route by BA. The increase in alliances between global airline players has helped in further improving the political and legal options made available. For instance, British Airways (2014) reports that BA has established positive alliances with other airlines, including Air Berlin, American Airlines, Cathay Pacific and others. This has helped create a global network while ensuring that there is a reduction in overall economic impact.

According to King (2014), the social factor that needs to be considered is increasing consumer preferences for luxury in in-flight travel. Airlines are looking to create a hotel experience in the sky to increase customer satisfaction and customer engagement. Pedro (2013) also reports that high end consumers prefer video conferencing and internet access as additional features to conduct their business operations, indicating the need to update technology requirements. According to Visit Britain (2014), the hotel occupancy rate in the UK in 2014 was at 83.7%. This was 1% higher than the 82.1% of 2013. Furthermore, new hotels being constructed between 2014 and 2016 increased by 23% when compared to 2009–2011. This shows that the UK tourism industry has recovered, which translates to a positive social environment.

Figure 3: PESTLE Analysis



Source: Author (2015)

3.3. Industry Competition

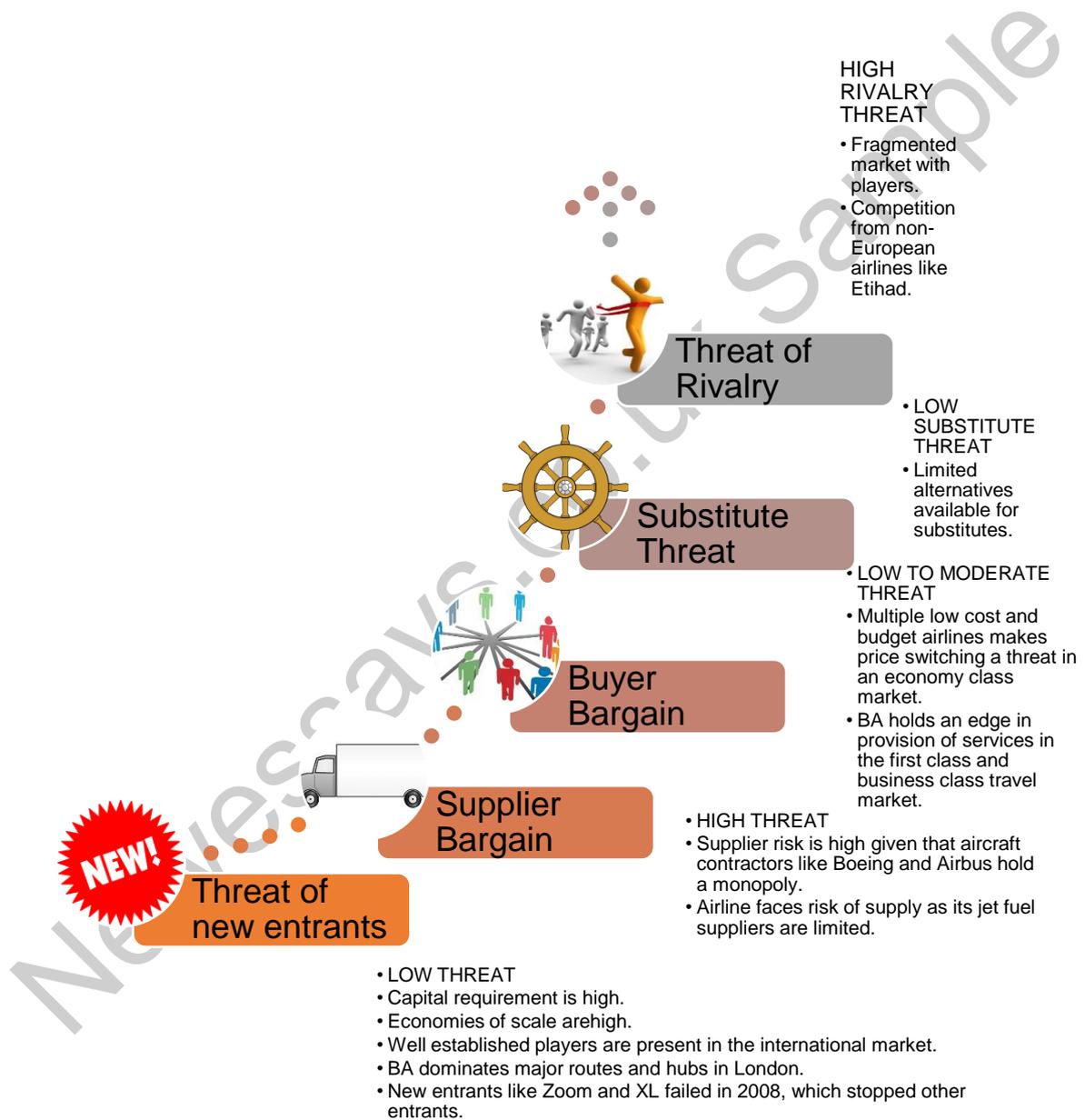
The other factor which needs to be examined as part of the macro-environment is the Porter's five forces. The rivalry that exists in the airline market is relatively high. For instance, Gaggera and Piga (2010) report that the airline industry has shown high competition in travel, which is impacted by multiple factors including quality and price (short term) and comfort and quality (long term). The following Figure 4 presents the Porter's analysis.

Buyer power is relatively high in general due to the price sensitive nature of travel as well as the growth of online price comparison sites and changes in corporate travel expense policies for business travellers. However, the differentiated service given to first class and business travellers, including extra leg room and in-flight entertainment, provides BA with a moderate level of control over consumer price requirements. For instance, Saurine (2015) reports that BA is offering better food and drinks options to its consumers.

Supplier power is moderate to high as airlines like BA need to enter into a contract with companies like Airbus and Boeing. The two airlines form the duopoly in new jetliners (especially the A380) and the lack of alternative manufacturers give them high power. On the other hand, fuel suppliers also have moderate impact. Marketline (2014) reports that fuel prices in 2014 have remained moderate and stable, while in 2013 they represented 31% of operational costs. Therefore, supplier power is also reasonably high. New entrants in the market are low given the economies of scale. The primary way to enter a new market is to enter into collaborations with other airlines. For instance, BA entered into partnership with Iberia to promote business from Europe (Hall, 2015). Furthermore, BA operates from three airports in London and therefore has a significant lead in the industry. Threat of substitutes is very low in the international market, as other forms of travel like marine travel take more time.

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Figure 4: Porter's Analysis

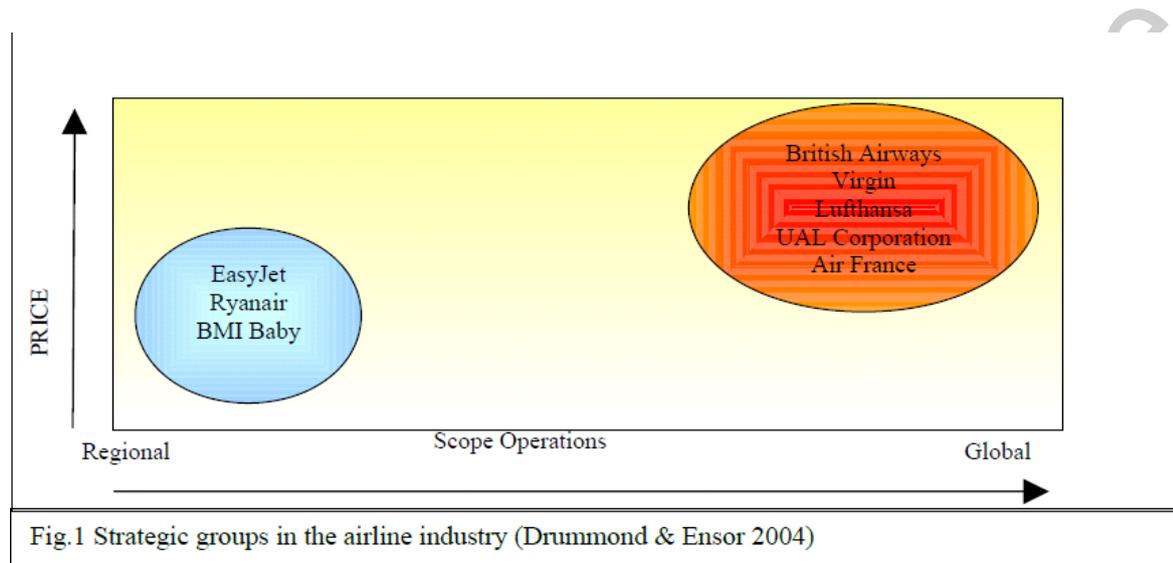


Source: Author (2015)

According to Gregory (2010), the airline industry is broadly classified into the low cost airlines (e.g. EasyJet, Ryan Air) and the moderate to high cost airlines (e.g. British Airways,

Virgin). BA operates in the short haul and the long haul market, with every sector having different markets. In the short haul market, BA competes with regional operations of low cost airlines. On the other hand, at the longer hauls the key competitors of British Airways include Virgin, Lufthansa, Emirates and Air France. The following figure presents the airline industry strategic groups and thereby highlights BA's position.

Figure 5: BA Competitors



Source: Drummond and Ensor (2004)

4.0. Geographical Markets Expansion and Rationale: Ansoff Matrix

Varadarajan (2010) reports that the long term marketing strategies of an organisation and potential international market strategies can be examined using the Ansoff Matrix.

Market Penetration: This strategy aims at reaching existing markets in a more aggressive manner to improve market share. This strategy may not work for BA, given that it already has a significant number of rivals in its international market.

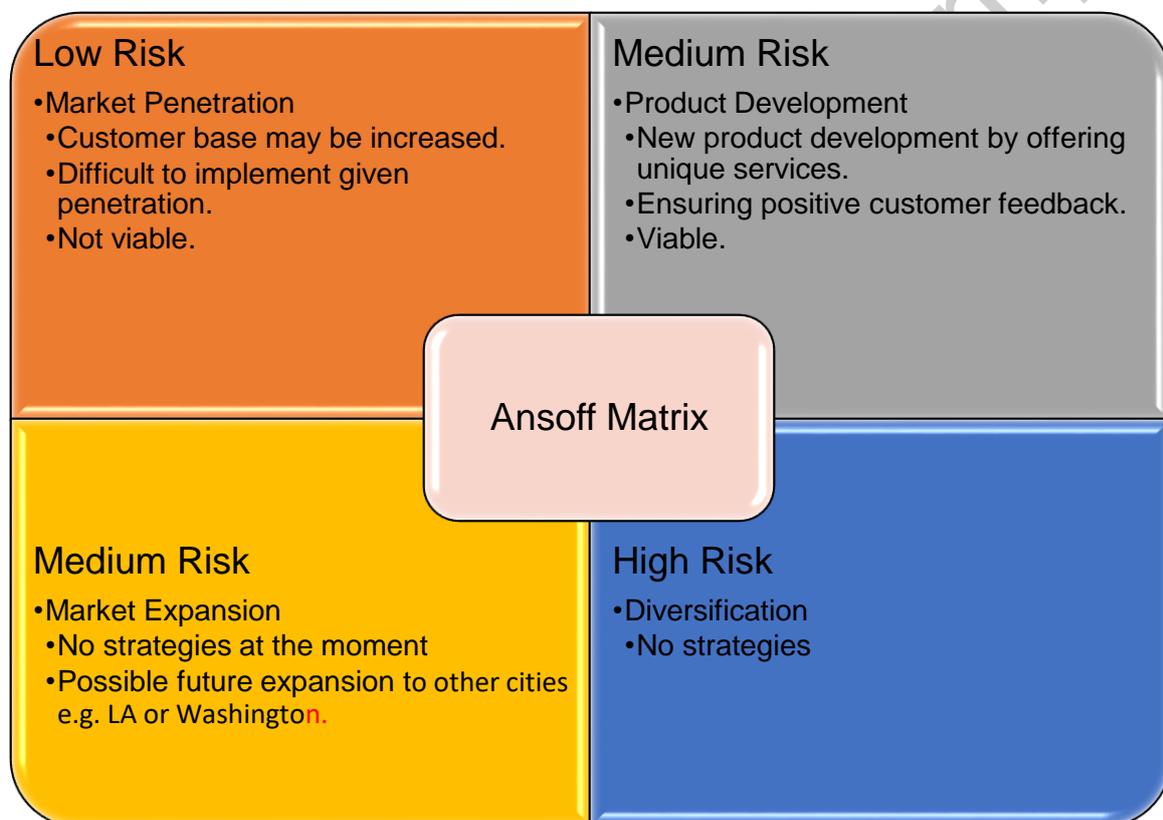
Product Development: The product development approach involves the identification of new products and new measures which meet the needs of the customers by outperforming other customers (Kotler and Armstrong, 2013). This is the strategy that BA adopts in its London-San Francisco route. From the external environment analysis, it is clear that the market is saturated and volume is expected to go down. Therefore, the focus needs to be on

service innovation. In line with this view, the launch of A380 as a non-stop route from London to San Francisco is a key product development approach.

Market Diversification: Schawel and Billing (2012) report that market diversification involves different marketing strategies for different products to identify new markets for existing products. This approach is not followed in this specific route.

Diversification: Introduction of new products to new locations

Figure 6: Ansoff Matrix for ABC



Source: Author (2015)

5.0. Marketing Segmentation, Targeting and Positioning

5.1. Market Segmentation and Critical Success Factors

According to Grant (2010), the key role of market segmentation in the industry is to ensure that the market segments are understood and that the market strategies for these segments meet the demands of the customers. The current research presents the consumer market segments and the proposed product market segments that can be provided by BA. The following table presents the consumer market segments. The proposed customer segmentation is derived from the classification of Leick (2007).

Table 1: Customer Market Segmentation

| Type of customer | Customer needs | Segment attractiveness |
|----------------------|---|--|
| Customer King | Customers of this category give premium to comfort and quality of travel. The cost of travel does not influence their decisions. Their focus is on the consequences of travel. | The customer looks for comfort and can be targeted for the first class seats of the proposed route. |
| Frill Seekers | Customers in this category are loyal and are willing to travel with specific airlines. They are moderately price sensitive and often look to capitalise on loyalty programmes and a frequent flyer miles programme. These customers are attribute oriented. | This customer may look for quality but also places a premium on types of service and the importance given by the airline to loyal customers. |
| Hitchhikers | The customers of this segment look at travel as an absolute necessity. They are flexible with the types of travel arrangement and are only oriented towards price. | This customer is targeted as they may wish to make a non-stop flight from the UK to San Francisco. |

Source: Author (2015)

The two product segments that need to be discussed in line with the BA London-San Francisco route include the business and the first class seats. The table below identifies the

characteristics of these segments and the scope and challenges that BA faces in these segments.

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Table 2: Product Segmentation

| Segment | Segment description | Segment attractiveness | Success factors | Future growth |
|-----------------------------|--|--|---|-----------------------|
| First Class | The most premium class of travel. Customers in this segment will be offered a flat bed with a duvet, indulgent dining and access to a spa (BA, 2015). | Threat of new entrant: Low, given the need to implement high quality interior and other requirements. | Quality of service; Unique service provision; Exclusive customers. | Significant potential |
| | | Threat of rivalry: Moderate, given the limited number of airlines operating such a level of high class service. | | |
| | | Threat of substitutes: Low, and can be linked to cruise ships. | | |
| | | Buyer power: Moderate, as the market is homogenous with first class being priced relatively high. Supplier power: Moderate. | | |
| Club World | Club World provides premium level comfort and service with a spacious seat, flat bed, access to private lounge and additional amenities (BA, 2015b). | Supplier power: Moderate | Reputation; Loyalty programmes; Comfort and quality of travel. | Significant potential |
| | | Threat of new entrant: Low, given the need to implement high quality interior and other requirements. | | |
| | | Threat of rivalry: Moderate to High, given the limited number of airlines operating such a level of high class service. | | |
| | | Threat of substitutes: Low. Buyer power: Consumers may look for price sensitiveness at this level. However, loyal customers who have rewards linked to the Club World use this class. | | |
| World Traveller Plus | World Traveller Plus is the premium economy service that is available to travellers. This service includes a wide seat and extra leg room (BA, 2015b). | Threat of new entrant: Low, given the need to implement high quality interior and other requirements. | Reputation; Loyalty programmes; Comfort and quality of travel; Competitive pricing. | Significant potential |
| | | Threat of rivalry: Moderate, given the limited number of airlines operating such a level of high class service. | | |
| | | Threat of substitutes: Low and can be linked to cruise ships. | | |
| | | Buyer power: Moderate, as the market is homogenous with first class being priced relatively high. | | |

6.0. Marketing Mix of British Airways

According to Gronroos (1997), the marketing mix is an important tool in marketing as it helps determine the product, the price, promotion and place strategies that are adopted by a business and thereby identifies how these factors influence the buying decisions of customers. The use of this strategy helps in determining the best way to influence consumer behaviour.

6.1. Product

The different product promotion strategies of BA are listed below.

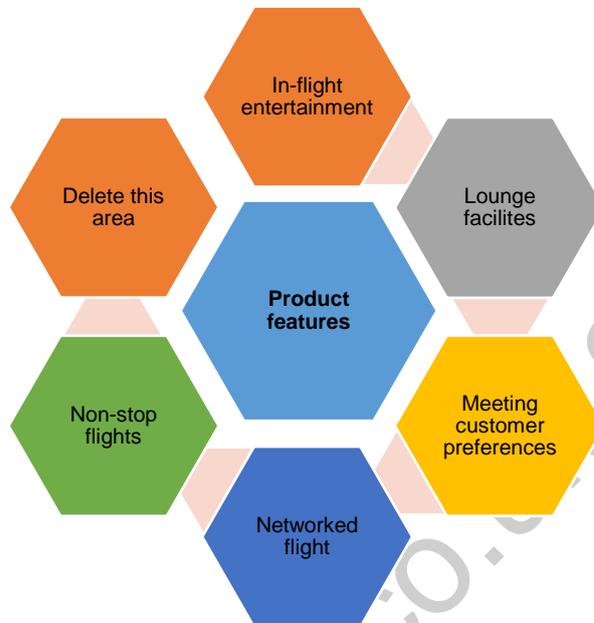
Customer Preferences: BA promotes a product which signifies the quality and luxury of travel. For instance the first class, club class, premium economy class and economy class of travel are found to be different products which are promoted to meet the unique needs of the customers. The customer needs are always considered by BA. A good example of commitment to its cause is the 'Don't Fly' campaign which was launched during the Olympics. Marketing Week (2012) reports that since the airline was a key sponsor of the London Olympics, at the domestic level, the organisation wanted the customers to stay and support the home team. This drives the reputation of the organisation as one which understands the needs of its customers.

Multiple Networks and Non-Stop Flight Options: BA has been a leader in the non-stop flight from Europe to the US with the non-stop flight and unique services from London to New York. The launch of a non-stop service on all days from London to San Francisco with the A380 provides options for travellers who wish to avoid transits within the US (USA Today, 2014). Furthermore, BA has multiple connecting flights to other countries in Asia including Dubai, Eastern Asia and the Indian sub-continent.

Off-Flight Facilities: Access to world class facilities including the £60 million 'Galleries' lounge for its executive class members (Telegraph 2009) helps in promoting additional product related services.

In-Flight Features: The proposed A380 is expected to have 14 suites and 97 Club World business class sections. It also has multiple flatbed options and is currently expected to be the only flight which has more flatbeds departing from San Francisco (USA Today, 2014).

Figure 7: Product Features



Source: Author (2015)

6.2. Pricing Mix of British Airways

According to Bilotkavich et al. (2010), pricing is a key aspect of any marketing mix and is crucial to the success of a marketing management strategy. The pricing strategy of BA should take into account the needs of the customers and provide relevant pricing. BA has a tiered pricing strategy where customers are provided with the full freedom that they need to decide and choose the type of seating that will fit their budget. The type of service provided and the expectations that the customers can have from the flight are clearly detailed on their website (BA, 2015). Furthermore, BA offers a best price guarantee by ensuring that the customers can directly purchase from BA without depending on external affiliates.

6.3. Place

BA flies multiple routes from London to US cities. However, the focus of this report is on the London–San Francisco travel route.

6.4. Promotional Mix of British Airways

According to Kotler and Armstrong (2010), the promotional strategies of the organisation are vast and complex. Multiple modes including TV, newspapers, e-marketing, billboards and others can be adopted. The primary mode of product promotion by BA is to do direct marketing where BA can directly reach its customers.

Know Me Programme: British Airways launched its 'Know Me' programme to give its customers a unique experience where they can be provided with relevant information on holidays and offers. This programme helps gather information on their flying habits and their requirements.

Unique Marketing Campaign: The organisation has launched the 'To Fly, to Serve' campaign (Airline Trends, 2012). The purpose of this campaign is to ensure that BA's values of competence, service quality and comfort are promoted to its customers.

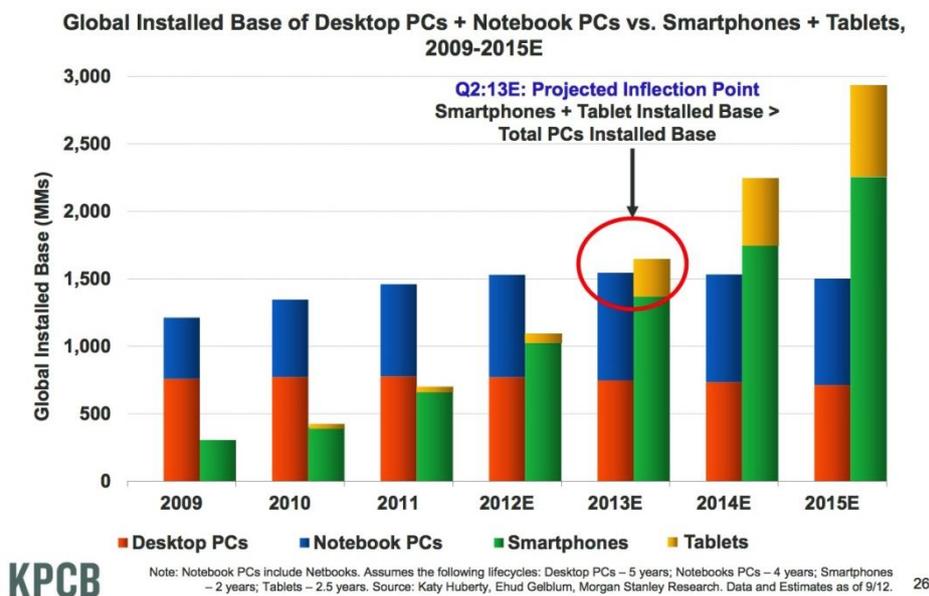
Unique Sales for Flights to US: The positive Dollar-Euro exchange rate has resulted in BA launching complimentary services including in-flight meals and on-demand in-flight entertainment. The organisation is launching services which provide additional deals, including stays in specific European hotels at discounted rates (Dreschler, 2015).

Service Innovation: Air Trends (2012) reports that BA has the primary goal of promoting a positive relationship with its customers by ensuring that new innovations are used on its aircraft. Bloomberg (2012) reports that 2000 of cabin crew members were provided with iPads with in-flight menus, which will help in improving quality of service.

7.0. Cost Effectiveness of Promotions: Innovations in Promotional Mix

The use of extensive mobile marketing and social media marketing by British Airways is considered as a key factor which helps improve cost effectiveness. According to Ström et al. (2014), the use of mobile devices is ubiquitous and worldwide an increasing number of smartphones is replacing PCs. The following figure clearly presents this trend.

Figure 8: Global Smartphone and Tablet Installation when Compared to PC Installation



Source: (Gartner, 2013)

As Shankar and Balasubramanian (2009) argue, there is a need to ensure mobile marketing is adopted as part of product promotion. BA has adopted mobile marketing by using unique mobile email campaigns. This approach helps reach a greater number of customers while reducing the overall costs, as the application is for only executive members. Digital Angle (2013) reports that BA offers unique product services and discounts. The other form of cost effective promotions include the use of social media platforms. According to Gillin (2009, pg.4), “Conventional marketing wisdom has long held that a dissatisfied customer tells ten people. But that is out of date. In the new age of social media, he or she has the tools to tell 10 million consumers virtually overnight.” Therefore, this approach can be positive to help reduce the impact of costs. However, there are some inherent risks which can be linked to such measures. For instance, Information Week (2013) reports of a service user, Hasan Syed, who used \$1000 to promote a tweet to complain about BA’s mishandling of his

luggage. BA did not respond for over nine hours, leading to negative opinion amongst its customers.

8.0. Conclusion

From the above report it is concluded that BA is looking to improve service innovation and quality of customer engagement through the adoption of new aircraft and better services for its loyal customers. The organisation has adopted unique product promotion strategies for its specific market segments. However, the proposed route has not been well promoted. This report concludes that the route needs to be promoted using digital marketing.

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