Curiouser and Curiouser: 
the Wonderland of Changes Wrought by BA

Has British Airways fallen into a rabbit hole or embarked on an adventure of change?

Willie Walsh, the CEO of British Airways, may sometimes feel his role is based on the children's novel Alice's Adventures in Wonderland. Alice encounters an array of absurd circumstances and the story culminates in the court scene with the Queen of Hearts. Confusion reigns and the Queen quickly renders judgment on Alice with four words, “Off with her head.” Mr. Walsh, too, has encountered extraordinary events during his tenure at British Airways, such as astronomical fuel prices, a collapse of premium traffic, and the opening of a new terminal gone wrong. Mr. Walsh’s methods may or may not be madness; unfortunately the answer may be determined by market forces beyond his control.

A Prologue of Extraordinary Events

These are confusing times for a carrier seeking to be the “World’s leading global premium airline.”1 One moment British Airways models itself as a low-cost carrier by introducing a la carte fees and the next, it’s touting the luxury and convenience of all-business-class jets from London’s City Airport. Back in 2000, the future seemed far more certain when British Airways was singularly focused on serving business travelers by introducing a flat bed in business class and a new premium economy cabin called World Traveller Plus.2

Willie Walsh joined British Airways as the chief executive designate in May 2005.3 During his tenure, he has faced a wildcat strike by ramp employees in the year of his arrival,4 a guilty plea by the company for price fixing charges in 2007,5 and complete chaos when the carrier opened Terminal 5 at Heathrow Airport in 2008.6 Of course this was combined with skyrocketing fuel prices during 2008 and a global recession that began shortly thereafter. British Airways profits have been on a roller coaster ride from a record operating margin of 10 percent for fiscal 20087 to a first ever quarterly loss for the period ended 30 June 2009.8

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1 Chief Executive’s Review in the 2008/09 Annual Report and Accounts of British Airways.
2 History and Heritage section at BA.com reviewed December 2009.
3 Biography of Willie Walsh in the Investor Relations section of BA.com.
4 “BA halts Heathrow flights all day” article dated 12 August 2005 at BBC.com.
5 “Judge approves BA’s $300m fine for price-fixing” article dated 23 August 2007 at Guardian.co.uk.
6 “T5 chaos not BA’s finest hour” article dated 28 March 2008 at BBC.com.
7 British Airways Annual Report and Accounts for the fiscal year ended 31 March 2008 at BA.com.
8 “British Airways Slips Into Loss” article dated 3 August 2009 in the Wall Street Journal.
The current economic plight of the carrier became painfully apparent when British Airways recently announced revenues had dropped by an alarming 51% for the quarter ended 30 September 2009. The unprecedented strategies British Airways has employed during the last couple of years are more understandable when considering the business environment the airline is facing.

British Airways sought to boost revenues through innovation and reduce costs through product cutbacks. The carrier developed products that broke new ground in the industry such as its US-based OpenSkies airline subsidiary and all-business-class flights between London City Airport and New York. It has committed what many consider to be acts of desperation by applying a la carte fees to business class travel and stimulating traffic through hugely generous bonus offers. Have these methods defined a strategy for success or a recipe for failure?

**The Budget Business Class Experiment**

British Airways sought to take advantage of liberalized regulations that allow the UK-based airline to operate flights between the United States and destinations in the European Union. The airline announced plans to launch flights from New York to Paris and Brussels in 2008. The wholly owned OpenSkies subsidiary would expand to more cities and have a fleet of six 757 aircraft by the end of 2009. Within weeks of starting operations on 19 June 2008, British Airways acquired a competitor called L'Avion, which operated Newark – Paris Orly flights, in a transaction valued at 68 million euros.

OpenSkies launched with a “serve every need” 3-class configuration featuring 24 flat beds, 28 extra spacious premium economy seats, and an unusually small 30-seat economy cabin. The seating arrangement allowed a more intimate style of service. But intimacy wasn’t a compelling reason for passengers to make the switch from other airlines. The L'Avion relationship steered the airline in the direction of all-premium service. OpenSkies removed its economy seating and concentrated on upscale travelers with a more distinct two-class premium product.

Its Biz Seat product mimics an earlier style of business class with a wide reclining seat and 52-inch pitch. Some might call it a super premium economy. The flagship Biz Bed product provides a 6-foot lie-flat bed. During 2009 expansion plans suffered a setback with the cancellation of the New York – Amsterdam route. The carrier focused its resources on the remaining New York JFK – Paris Orly and Newark – Paris Orly routes where it claimed it has a 25% share of business class traffic.

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9 “British Airways’ shares gain in the wake of quarterly results” article dated 6 November 2009 at MarketWatch.com.
The Biz branding implies a higher standard of service throughout the aircraft. OpenSkies charges a Biz Bed premium above the price of Biz Seat. Both products provide the benefit of lounge access (but not at JFK for Biz Seat); as well as at-seat video, BA Executive Club miles, and high quality meals (Biz Bed offers better dining).\textsuperscript{14} Passenger trip reports posted at AirlineQuality.com are generally positive. Biz Seat travelers expecting a luxury experience will be disappointed; those seeking a cheaper style of premium service are generally delighted.

\begin{quote}
“It’s not quite business class, but better than Premium Economy offered by others. A roomy seat with very good pitch, decent if limited food and wine selections and a competent, bilingual cabin crew. The portable digital players are a bit inconvenient to use and have a limited movie selection. Orly is preferable to CDG in terms of convenience. The real attractions are the very good value for the money and comfortable seat.”
\end{quote}

- Excerpt from October 2009 Biz Seat posting at AirlineQuality.com

OpenSkies has struggled with its experiment to establish a high quality airline hub in the United States. The Financial Times reported on 29 January 2009 that British Airways postponed plans for further expansion and would sell aircraft that had previously been earmarked for its OpenSkies subsidiary. Dale Moss, the carrier’s managing director, remarked later in 2009, “Our original plan called for profitability when we start our fourth year of operation. Like most businesses, we didn’t foresee the depth of difficulty of the past year. We’re recasting our business plan to address today’s reality and can’t predict a time line for profitability just yet.”\textsuperscript{15}

British Airways hoped to operate 6 aircraft at the end of 2009; in reality the December 2009 schedule of one New York JFK – Paris Orly roundtrip and one Newark – Paris Orly roundtrip could be supported by a fleet of two aircraft. The decline in fleet size and destinations suggest this experiment has failed, and yet the carrier recently announced its intent to not sell the operation.\textsuperscript{16} On the positive side, the airline introduced 92,000 passengers to the brand during its first year of operation.\textsuperscript{17} But this ambitious experiment risks the danger of becoming insignificant due to its shrinking footprint in the giant New York marketplace.

\begin{table}
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\caption{Lessons Learned – OpenSkies}
\begin{tabular}{|l|
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\textbullet{} British Airways demonstrated entrepreneurial verve by launching OpenSkies; other EU-based airlines passed on the opportunity to tap into new unregulated markets. \\
\textbullet{} Stealing market share from Delta, Continental, and Air France is a monumental task because major competitors can simply match any fare posted by OpenSkies. \\
\textbullet{} Being a one or two route airline based in New York removes any hope of creating meaningful levels of consumer recognition and delivering profits to British Airways. \\
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\textsuperscript{14} Review of FlyOpenskies.com website and contact with its call center during December 2009. \\
\textsuperscript{15} Blog entry of Dale Moss dated 27 August 2009 at FlyOpenSkies.com. \\
\textsuperscript{16} “British Airways to Keep Unit” article dated 11 December 2009 in the Wall Street Journal. \\
Stylish and Ahead of the Game from London City

British Airways announced another transatlantic initiative around the same time it was creating OpenSkies. The carrier would link the financial centers of London and New York with flights from close-in and convenient London City Airport. The new service was branded “Club World London City” and would operate with a specially configured 32-seat Airbus A318 aircraft. The short length of the London City runway requires reduced aircraft seat capacity and necessitates a westbound fuel stop.

The service was designed to offer particular appeal to corporate travelers based in London’s financial district, which is adjacent to the airport. Unfortunately, the September 2009 launch of the service could not have been more problematic due to the global recession; London’s banking and insurance industries have been particularly punished. The carrier had lingering doubts about the concept; Willie Walsh says management considered canceling the project on at least two occasions, with the last review occurring June 2009.

The aircraft is fitted with lie flat beds equipped with electrical outlets to power personal electronics. Wireless email and text message access is available through the OnAir service and at-seat video entertainment is provided through portable devices. Flights feature catering inspired by a relationship with Roast, which is a popular restaurant near London Bridge. Travelers departing New York may choose a full meal in the Terraces Lounge before boarding or a nighttime snack onboard. Passengers wishing to maximize sleep time may select the take-away City Breakfast option in lieu of the hot breakfast served before arrival.

Eastbound travelers experience a nonstop flight from New York JFK to the heart of London. Westbound travelers may arrive a scant 15 minutes before departure, or 20 minutes before departure if they check bags. Flights from London City Airport make a refueling stop at Shannon which doubles as a US Immigration and Customs processing point. This allows arriving passengers to bypass border checks upon arrival at New York JFK.

In practically any other economic environment, the Club World London City service would be heralded as inspired innovation. However, pundits question the wisdom of introducing more premium services when so many existing business class seats are empty. But Willie Walsh is unapologetic. “In the harshest trading environment airlines have experienced, we believe it is more important than ever to embrace the future and innovate. That is what this historic new route is all about. This is BA at its best - stylish, British and ahead of the game.”

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19 “BA thought twice about business class-only flights” article dated 30 September 2009 in the Financial Times.
Lessons Learned – Club World London City

- Similar to OpenSkies, British Airways demonstrated willingness to accept risk in search of new opportunities.
- The service aligns nicely with the carrier’s core London-based business travel market.
- Unfortunately, London City Airport offers limited expansion potential due to the operational constraints posed by its single and relatively short runway.
- While Club World London City is a high profile signature service, it offers limited financial potential.

BA Brings a la Carte to Business Class

Willie Walsh may have been surprised by the negative reaction when the carrier proclaimed, “British Airways is launching a new service to give customers more control over their seating options.” What British Airways announced as an enhancement on 28 September 2009 was in fact an a la carte fee structure for seat assignments requested at time of booking. It also represented the first-ever example of applying fees to discounted business class fares in Club Europe and Club World.

The backlash was swift and furious with headlines around the globe readily comparing British Airways to Ryanair, with one member of Parliament branding the move as “fundamentally dishonest” and urging the British government to intervene. The fees prompted CNN’s Richard Quest to interrogate Willie Walsh on an inaugural flight from London City Airport:

A Conversation between CNN’s Richard Quest and Willie Walsh

| Quest: “The gap between BA as a full service airline and the low cost carriers is getting inexorably tighter.” |
| Walsh: “The gap is the width of the Atlantic. You forget that these low cost carriers have been moving all the time. They are now at the point where they are charging you to check in. They’ve just about unbundled every single part of the product, and they are charging you extra for it. We are nowhere close to what they are doing.” |
| Quest: “But two years ago it would have been anathema that BA would’ve charged to select your seat.” |
| Walsh: “I think five years ago it certainly would, two years ago we were talking about new revenue streams and how we could generate additional revenues. I think every business is looking to do this. We’re doing it at British Airways.” |

- CNN Business Traveler, 14 October 2009 edition

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21 “BA passengers to be charged up to £60 just to reserve a seat on flights” dated 28 September 2009 in the Daily Mail.
The seat assignment fee applies to passengers purchasing discounted fares in the economy, premium economy, and business class cabins. Effective 7 October 2009 these passengers could now opt to pay a fee to select a seat when a booking is made. British Airways did not anticipate an uproar occurring over the pricing of what it considered to be a product enhancement. However, travelers obviously believed the British Airways brand should represent a refuge from the fee culture endorsed by low cost carriers. The airline didn’t help itself by making the feature very complicated; a December 2009 review of BA.com revealed 1,600 words were required to fully describe all elements of the offer.

Very briefly stated, elite travelers and those with fully flexible tickets may select a seat free-of-charge when they book travel. All others (with exceptions for the disabled and those traveling with infants) may pay a fee to select a seat. Economy and premium economy passengers may also pay more to upgrade to an exit row seat 10 days before departure. Another group of qualifying passengers, such as those traveling with children, will receive a free seat assignment 3 days before departure. All other passengers may choose a free seat assignment 24 hours before departure. But the change that captured the interest of business reporters and executives in the airline industry was the application of a la carte fees to business class travel.

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<tr>
<th>Now that’s a first – a la carte fees for seat assignments in premium class</th>
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<tbody>
<tr>
<td>Club Europe – discounted fares</td>
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<tr>
<td>Club World – discounted fares (business class outside Europe)</td>
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Business class passengers who purchased a flexible fare ticket (booking codes J & C) may request a seat assignment free of charge at time of booking. All other business class fares (to include all reward travel) require payment of a fee if the traveler chooses a seat assignment when travel is booked. An exemption from the fee is made for those with Gold or Silver status in BA Executive Club, or if they are handicapped. Of course, passengers may wait until 24 hours prior to departure to request a free seat assignment.

The topic of a la carte fees for premium class travel became the feature of a panel discussion at the Ancillary Revenue Airline Conference (ARAC) held in California 22-23 October 2009.22 The writer of this report was one of six participants on the panel. The question was posed to the panelists, and later to the audience of airline executives, “Will a la carte fees someday apply to business class travel?” Amazingly, everyone on the panel concurred premium class travel will not be totally exempt from fees. Airline executives in the audience spoke in support of the concept and admitted fees will creep into business class cabins; nary a person rose to offer a contrary position.

22 Ancillary Revenue Airline Conference listing for 22-23 October 2009 at AirlineInformation.net.
The move by British Airways may have effectively given the industry “permission” to now consider these fees for business class travel. This is similar to the precedent established by United’s decision in early 2008 to charge a fee for the second piece of checked baggage.23 Another important milestone was made the same year when Singapore Airlines announced a US$50 fee for exit row seating.24 While the Singapore fee only applied to economy class travel, the precedent established by one of the world’s preeminent service airlines was huge – even high class airlines could implement a la carte fees.

British Airways quickly learned that seeking new revenue may lead to unintended consequences. Headlines such as “British Airways to charge for advance seat assignments, even in business class” (USA Today) and “Cash-strapped British Airways to charge fee for choosing seats” (Sydney Morning Herald) were numerous after the announcement was made in September 2009. Travelers grudgingly accept the seat assignment fees charged by low cost carriers, but many believe this practice violates the branding promise of British Airways. The airline has muddied its position on the issue of fees with its BA Value Calculator at the BA.com website. Here the carrier touts its “no extra charge” philosophy and compares it to the numerous fees charged by Ryanair and easyJet:

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Lessons Learned – a la Carte in Business Class

• A carrier’s brand should determine its a la carte fee strategy; the need for revenue should not define the brand.
• Consumers and media labeled the new fees as spurious; they believe the British Airways brand should provide freedom from the fees charged by low cost carriers.
• Perhaps unintentionally, the airline has created an environment in which other carriers may now consider fees for premium travel.

Amazingly Generous Marketing Offers

Ryanair.com is known for outrageous offers such as “1 Million Seats £5 Each” and the equally impressive “500,000 free seat SALESARAMA.” European travelers realize the seats may be free, but the fees for baggage, check-in and drinks are not. The strategy screams “we are the cheapest” which is a message that is entirely consistent with the Ryanair brand. The airline has a deserved reputation for being the most aggressive marketer on the planet. And to Ryanair’s credit, the offers are straightforward; the carrier is clear about the number of seats offered and the discounted or zero fares are readily identified at the website.

British Airways seems to be emulating – albeit in a more tasteful manner – Ryanair’s style of making exceedingly generous offers. But the offers are more opaque and include some not-so-obvious extra costs. Readers will note the carrier carefully avoids using the phrase “free” and highlights the existence of surcharges, taxes, and fees. Companion tickets and Executive Club reward travel do not equal free travel as those pesky fees do apply.

The complimentary companion ticket offer announced in September 2008 was critiqued by the Wall Street Journal as being “so complicated that it offers a vivid example of the complexities often involved in airline specials.”

The above offers were promoted at BA.com during December 2009.

But BA’s “most generous offer ever” was made during November 2009 when the carrier announced a 100,000 mile bonus for its US-based British Airways Visa Signature card. The headline in the New York Times asked, “The Best Credit Card Sign-Up Bonus Ever?” Members applying for the Chase credit card would earn 50,000 miles after making an initial purchase and an additional 50,000 miles if $2,000 was spent within 3 months of receiving the card. 100,000 miles in the BA Executive Club will provide two roundtrip tickets between the US and most of Europe to include London, Paris, Amsterdam and Munich. Cardholders will also receive a companion voucher for a trans-Atlantic flight if they spend $30,000 a year on the card.

These seemingly amazing offers do come with strings attached that can generate significant revenue for the carrier. Many of the fees are unavoidable and should be reflected in the base fare. British Airways assesses a fuel surcharge for all travel “to reflect the fluctuating price of worldwide oil.” This particular fee is not charged by all carriers such as American Airlines in the USA and Ryanair in the UK. The first piece of checked baggage remains a free benefit for travelers on British Airways. The “insurance and security surcharge” is an official-sounding name for a fee that merely helps British Airways recover higher expenses related to insurance premiums and security. It’s not a government-mandated tax. The airline also charges “online booking fees” to residents of 35 European countries on a per passenger basis.

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<th>Complimentary travel brings revenue for BA</th>
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<td><strong>Economy Class Travel</strong></td>
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<tr>
<td>Paris to London</td>
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<td>Fuel Surcharge</td>
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<td>2nd Checked Bag (1st bag free)</td>
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<tr>
<td>Insurance and Security Expenses Incurred by BA</td>
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<td>Online Booking Fee</td>
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<td>Seat Assignment at Booking</td>
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<td><strong>Total Fees for Roundtrips (2nd bag paid at airport)</strong></td>
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<tr>
<td><strong>Chicago to Paris</strong></td>
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*Source: Review of BA.com website and calls made to BA reservations, December 2009. 1 GBP = 1.105 EUR*

Add it all up and British Airways ingeniously generates significant revenue from the amazing offers made to consumers. These promotions undoubtedly encourage consumers to purchase travel to qualify for companion rewards. And the 100,000 mile bonus offer will likely swell the size of the credit card portfolio in the United States. These are noble pursuits for any airline. But the reliance upon “shock and awe” marketing methods, along with surcharges and fees, brings the carrier closer and closer to the branding realm of Ryanair. These short term initiatives certainly generate big results . . . but they may also have long term consequences.

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Lessons Learned – Generous Marketing Offers

- Consumers and media are especially alert to the issue of any new a la carte fee.
- British Airways is edging toward more a la carte fees; the carrier’s brand positioning has not been updated to reflect this.
- The carrier has learned how to generate revenue from promotional offers . . . but runs the risk of alienating its best customers with complicated terms and conditions.
- Big bonus mileage offers will swell mileage liability, which requires the airline to provide more redemption opportunities such as unrestricted rewards and merchandise.

British Airways Wakes Up to a New World

Returning to Alice’s Adventures in Wonderland, Alice is brought back to reality by her sister at the end of the novel. “Wake up, Alice dear!” said her sister, “Why, what a long sleep you’ve had!” And Alice responds, “Oh, I’ve had such a curious dream!”

Perhaps British Airways was also living in a dream world when the skies were filled with high yielding business travelers eagerly filling the seats of its First, Club World, and Club Europe premium cabins. With its slot-constrained fortress hub at London Heathrow Airport the carrier served the city’s bankers and insurance executives in high style. Management hoped its global hub and elite clientele would shield the carrier from the challenges faced by other legacy airlines. 2008 brought a combination of unforeseen events, from the meltdown of the banking and insurance sectors to the end of cheap oil, that may have forever tilted the identity of the airline.

Management has been vigilant to lower expenses in every area; this has generated scorn from employees who have been asked to give back and from passengers who have seen service reductions. But Willie Walsh and his team have not complacently waited for the carrier’s fortunes to change; recent comments herald the company’s successes:

“We’re seeing record satisfaction from our customers, record punctuality, record regularity in terms of operating flights in relation to the schedule, record baggage performance. So an overall significant improvement in our operational performance at the same time as we’ve taken our costs and manpower down.”

- Willie Walsh during an earnings presentation dated 6 November 2009

Labor peace among British Airways employees and a global economic recovery will largely determine the success or failure of the airline. But as the initiatives described in this report indicate, British Airways continues to aggressively plot its future.
The financial outcome of the OpenSkies operation in America remains cloudy. Willie Walsh is optimistic, but the endeavor might only represent a lost investment and learning experience for British Airways. The all-premium concept offers little more than a troubled past with the commercial failure of three transatlantic predecessors: Silverjet, Eos, and MAXjet. Its New York base is probably too far afield from the home turf advantage of British Airways; just imagine the challenges faced by United Airlines building a hub in the UK. On the contrary, the new service from London City Airport relies on core strengths with a London – New York customer base and unique service proposition. Club World London City shows promise of success but its contribution to overall corporate profits will remain small.

The controversial decision to include restricted business class fares in the carrier’s recent a la carte fee initiative may represent a moment of genius clouded by a seemingly hurried implementation. Prudence along with careful attention to brand integrity would require a careful examination before introducing seat assignment fees to premium passengers. The carrier’s rush to add fees provides testimony to its desperate need for new revenue. But the initiative has already generated attractive financial results. Willie Walsh recently disclosed his satisfaction with the carrier’s ancillary revenue efforts and suggests a “go slow” approach for the future:

“But it’s clear to us that there is opportunity, and significant opportunity, for growth in ancillary revenues. I think we’ve got a new focus on it. We’ve made good progress with some of the recent initiatives. We’ve got no major – no new major initiatives in train at this point, but we will keep under review options for further revenue streams, but we don’t have any specific proposals at this point”

- Willie Walsh during an earnings presentation dated 6 November 2009

British Airways has always been a brand conscious airline. Its recent behavior, to include a spate of big bonus offers, suggests the airline is becoming a more aggressive marketer and a la carte player in the style reminiscent of Ryanair. But don’t expect the carrier to abandon its self-proclaimed desire to be the “World’s leading global premium airline.” Willie Walsh has certainly lived the axiom that desperate times call for desperate measures. Under ideal conditions, a company should always keep its brand identity ahead of the game. The best brands are not maintained as historic artifacts – they are bright beacons that must be regularly redefined to maintain relevance and clarity.
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