**A2 Business Studies**

**Company Growth**

***Task: Should the merger of British Airways and Iberia Airlines go ahead or not?***

1. You are a team of business analysts, and have been asked to investigate the case of ‘British Airways’ wanting to merge with ‘Iberia Airlines’ to form ‘International Airlines’. You are provided with various pieces of information, which you must break down and analyse as a group. Fill in your analysis in the box after each piece of evidence.
2. Create a business presentation in which you evaluate each piece of evidence. You may wish to include things such as:

* Identify the firms involved.
* Identify the type of growth.
* Identify the reasons for this merger and the impact on the airline industry.
* Draw their position on the growth chart. (guidance 1)
* The advantages to the firms of this merger. (guidance 3)
* The disadvantages to the firms of this merger. (guidance 3)
* An evaluation of whether the merger should go ahead or not.

**Evidence 1 Four Firm Concentration Ratio Airline Industry 1935-2005**

A four firm concentration ratio is used to measure the power of the largest companies in an industry. It is calculated by simply adding up the market shares of the four largest firms in that industry. The Airlines four firm concentration ratio between 1935 and 2005 is as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| **Year** | **Four Firm Concentration Ratio** | **Year** | **Four Firm Concentration Ratio** |
| ***1935*** | 88% | ***1987*** | 64.8% |
| ***1939*** | 82% | ***1990*** | 61.5% |
| ***1949*** | 70% | ***1999*** | 66.4% |
| ***1954*** | 71% | ***2002*** | 71.0% |
| ***1977*** | 56.2% | ***2005*** | 55.4% |
| ***1982*** | 54.2% |

**Analysis of Evidence 1**

**Evidence 2 British Airways Shareholders 2010**

|  |  |
| --- | --- |
| **Name of Shareholder** | **Percentage of Holding** |
| Iberia Airlines | 9.07 |
| Standard Life PLC | 8.01 |
| Barclays PLC | 6.9 |
| Amvescap PLC | 6.74 |
| Lloyds Banking Group PLC | 5.37 |
| AXA SA | 4.85 |
| INVESCO PLC | 4.3 |
| Legal and General Group PLC | 3.99 |

**Analysis of Evidence 2**

**Evidence 3 Article on British Airways-Iberia Airlines Merger**

**UK Airline Industry Merger (M.Young, N Choudry & D.McConnell.2010)**

2009, British Airways start proceedings on a horizontal merger with Iberia airlines to form the worlds’ third largest airline. This would mean ‘the new enterprise will have increased its market share’ and ‘acquire market power’ (Jones.Pg380.2008). In 2008/9 BA and Iberia made massive losses, therefore the main objective of this merger is cost saving.

BA’s target is reducing costs by €400m. This may arise from: ‘reorganising the production, selling, distribution and management functions of the combined enterprises’. However BA have designated their cost savings to a reduction in labour*.*

*"The merger will create a strong European airline well able to compete in the 21st Century," said BA chief executive Willie Walsh. "Both airlines will retain their brands and heritage while achieving significant synergies as a combined force."* (BBC News. 12th November 2009).

The success of the merger is subject to whether or not Iberia can integrate fully into British Airways *‘into its existing organisational and management structure and .. pursue the necessary restructuring’.* If the costs of this are under-estimated then the merger may not achieve the associated synergy benefits (cost reduction). If the airlines incur these extra costs, they may have to reduce costs further, elsewhere, in the form of more redundancies. The future of BA and Iberia may well depend on the success of this merger, as currently both firms performance is poor.

*‘Walsh confirmed more jobs will go in order to achieve the €400m (£356m) in cost savings’* (The Guardian. 13th November 2009).

**Evidence 4 Turnover of Airlines 2007/08**

**Analysis of Evidence 3**

**Evidence 5 Annual Growth of Turnover of Airlines**

**Analysis of Evidence 4**

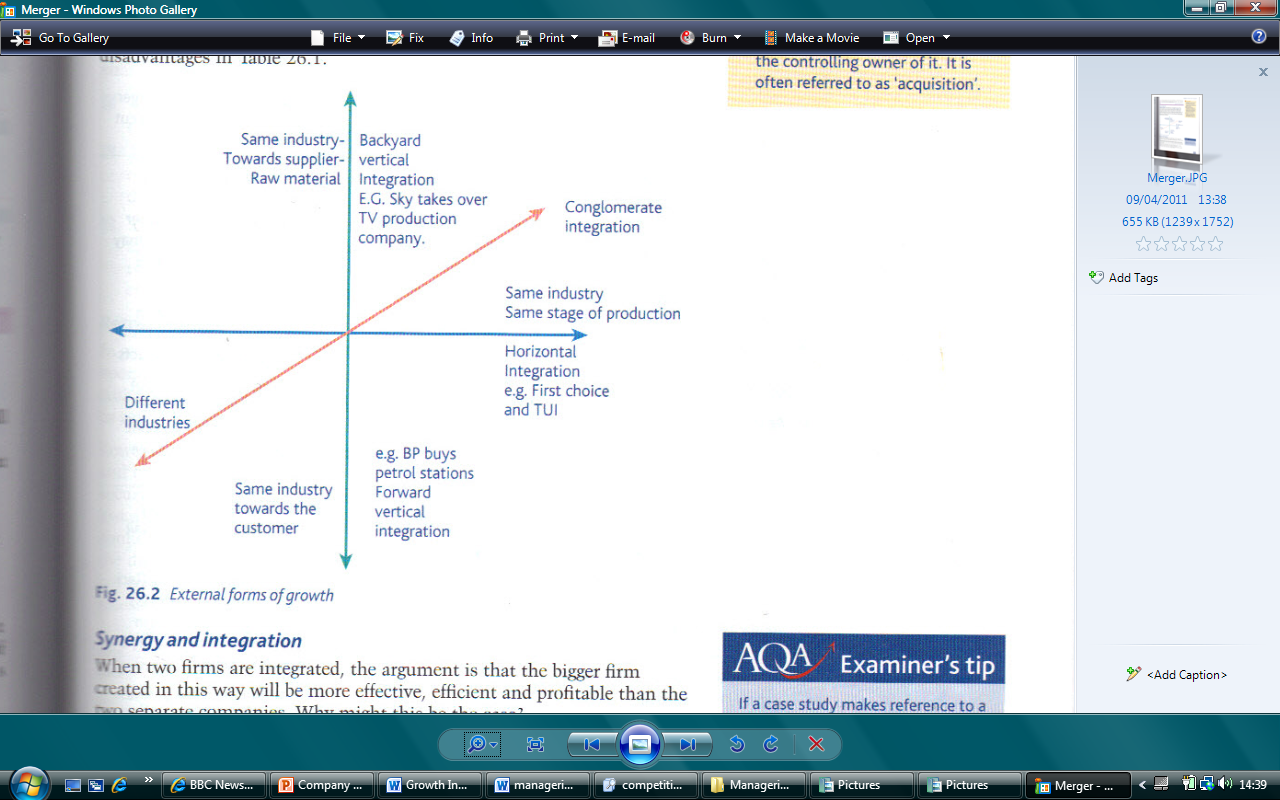
**Evidence 6 Pre Tax Profits of Airlines 2010**

**Analysis of Evidence 5**

***Iberia pre tax profit = -£182m***

**Analysis of Evidence 6**

***Guidance 1Types of Integration***



***Guidance 2 Hints and Tips***

* Horizontal merger. ‘The new enterprise will have increased its market share.....designed to acquire market power.’
* World’s third largest airline.
* Losses in 2008/09.
* Willie Walsh CEO.
* Estimated to save around €400m in costs.
* Virgin Atlantic concerned.
* Cost saving is the main objective
* Success of Merger?
* Subject to whether or not Iberia can integrate fully into British Airways ‘into its existing organisational and management structure and .. pursue the necessary restructuring’
* What if they Under-estimate costs
* Further Redundancies?

***Guidance 3 Advantages and Disadvantages of Horizontal Integration***

