



Strikes, stranded passengers and a summer of chaos. Is our national carrier in free fall?

Broken Airways

We're flying “ABBA”

“Anyone But British Airways”
has become the slogan of
passengers fed up with the nation’s
flag carrier. Buffeted by computer
meltdowns, strikes and – gasp!
– the end of free G&Ts, can
“the world’s favourite airline”
soar again? *John Arlidge reports*



James Anderson used to look forward to jetting off every July or August on British Airways. Like many of us, he felt BA was a cut above the competition. Boarding and enjoying a cheeky G&T before lunch, even in the cheap seats, it felt as though our holiday had already begun. Now, like many of us, he flies ABBA — “anyone but BA”, he frowns.

He made his decision after the flag carrier “completely ruined” an eight-day holiday to Barcelona with his wife, Marguerite. “We flew business class to treat ourselves, but it was just like economy. They lost my luggage for three days and my wife’s for 10 days. We couldn’t get through to BA to find out where our bags were. When we finally did speak to someone and said we wanted to come home, they said we’d have to buy a new full-fare business ticket. They couldn’t have cared less.”

At least the Andersons actually got away. In May, a computer meltdown on one of the busiest holiday weekends of the year grounded BA’s fleet worldwide. Weddings were ruined. Family reunions scrapped. Sports fixtures cancelled. For tens of thousands of the 75,000 affected, “holidays” started and finished in an overcrowded Heathrow Terminal 5 and ended in a joyless drive back home — often without luggage, since most of it was stuck in the bowels of BA’s hub.

The disruption is continuing now, during the busiest travel period of the year. Many of the 5m BA passengers set to travel through Terminal 5 over the next few weeks wonder whether their flights will take off as scheduled. BA cabin crew are in the middle of a series of two-week strikes — over “poverty pay” and cuts to bonuses and travel perks — that are due to run into August.

The strikes and the IT fiasco, which will cost the airline some £80m in compensation — about 5% of annual operating profit — could not have come at a worse time for BA and its long-suffering passengers. Travellers are already furious at the airline’s decision to scrap free food and drink on short-haul flights in favour of paid-for offerings from Marks & Spencer.

Critics say that under its latest CEO, Alex Cruz, who arrived last year from the Spanish budget airline Vueling, BA has deteriorated so much it is as unappealing as it was when it was a state-owned company nicknamed Bloody Awful. This year “has been a tipping point”, says Rita Clifton, a former Saatchi & Saatchi director of strategy who helped create BA’s iconic World’s Favourite Airline campaign. “Most staff and passengers used to love the brand. For too many, that has turned to hate.”

The latest rankings confirm BA’s rapid descent. In the Skytrax World Airline Awards, in which carriers are graded on passenger satisfaction, BA slumped from 26th place last year to 40th this year. That’s 10 slots below Aeroflot and seven below BA’s arch-rival, Virgin Atlantic, which is now the highest ranked UK airline. It’s been 11 years since BA was in first place. BA’s own in-house magazine, named, without irony, Up to Speed, confirms that a mere 45% of passengers say they are satisfied with the airline’s service.



HEATHROW, WE HAVE A PROBLEM
Above: stranded passengers at Terminal 5 during three days of misery caused by the BA computer meltdown in May. Below: CEO Alex Cruz admits the world’s former favourite airline is “falling behind”

One of BA’s problems has been that its recent leaders have been reluctant to talk about the airline in public. The North Korean leader, Kim Jong-un, gives more interviews. So I was pleased when Cruz invited me to join him on a private test flight around the coast of the UK on a brand new Boeing 787 Dreamliner, taking off from Gatwick and landing at Heathrow two hours later. On board the flight to everywhere and nowhere, he was open, charming and honest. He admitted BA was off its game.

“We are falling behind. We have work to do,” he told me. He outlined a radical plan to split the airline into two — a budget airline and a posh one — which he said would make BA a “fantastic, unbelievable, 10 out of 10” carrier again. “The best airline in Britain, and the best airline in Europe.”

But what sent BA into a nosedive in the first place? Independent analysts, BA staff and executives to whom I have spoken say the airline has cut costs too aggressively, eroding what was once its greatest strength: its status as a premium brand. One senior executive said: “We just don’t know when to stop cutting costs. There’s no calibration.”

BA technicians blame underinvestment and staff cuts for May’s computer meltdown. “Our IT systems are old and fragmented and are not tested for stress, disaster, disaster-recovery and business-continuity as rigorously as they should be,” one told me, speaking privately. BA’s parent company, International Airlines Group (IAG), said in 2015 that it aimed to save £78m in IT expenditure over three years “as a result of synergies, simplification and shared solutions”. Did they cut too much? Yes, says Henry Hartevelt of Atmosphere Research, a leading travel industry research firm. “On average, a network airline like BA spends less than 3% of its revenue on IT when the average for other industries is 4%-6%,” he says. BA insists the computer fiasco had “absolutely nothing to do with the way we resource our IT systems”. But it has not explained what happened.

BA has been slashing costs for years. It began after the 9/11 terror attacks in New York, earning Willie Walsh, Cruz’s predecessor-but-one and now boss of IAG, the nickname Slasher Walsh. It continued through the global financial crisis that began in 2008. In 2011, the airline also saw off union demands for higher



pay and better perks, facing down the Unite union in a series of bitter strikes. It was the right thing to do in a shrinking market. BA flew out of the noughties in better shape than most of its big European rivals. Air France is still struggling financially and Alitalia has just gone bust. Again.

The trouble is, insiders say, BA became addicted to cutting costs, carrying on even as demand for air travel and profitability has risen. Cruz has demanded that all departments make further spending reductions. "We're always going to be reducing costs. It's been injected into the DNA," he said in a revealing interview with the travel website Skift in January. BA did announce a £5bn investment in new jets and better service in 2011, but it has failed to lift standards, critics say.

The effects of BA's parsimony are obvious, just looking out of the window at Terminal 5. The airline is too reliant on ageing Boeing 747 double-deckers and 777 single-deckers, even if it does have a

few shiny new Dreamliners like the one Cruz wanted to show off. Breakdowns and glitches on its aircraft have left many cabin service directors joking darkly that they are "cabin 'sorry' directors" because they spend so much time apologising for blank TV screens, dilapidated lavatories and wonky seats.

"BA has not ordered enough new planes," says Chris Tarry, a City analyst with 30 years' experience covering BA. On our flight, even Cruz conceded: "The 747 is coming to an end. When the last one goes, it will probably be ours."

Cabins on all planes, old and new, are crowded and getting more so, as BA tries to squeeze more bums onto more seats to raise revenue. BA's long-haul business-class cabins — Club World — are typically eight seats across. Singapore Airlines and even American Airlines, once a bad joke, are four across and each passenger has direct access to the aisle, unlike on BA. (Business-class passengers, who generate around 60% of an airline's revenue, are fussy about these things.)

There will soon be so many economy seats on BA's new short-haul Airbus jets that they will have less legroom than on Ryanair. Cruz has removed one of the loos on the Airbus A321s to squeeze in more passengers — so make sure you go before you take off. Many of BA's Boeing 777 workhorses are being refitted with 10 seats across each row in economy, instead of nine now. BA says this is industry standard and will enable it to compete on price with Norwegian, one of a new breed of long-haul budget carriers that operates brand-new Boeing 787s from

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RED LINE Cabin crew protest against "poverty pay" outside the House of Commons

Gatwick, offering flights to America from just £139.

BA's service, once feted, also lags behind its competitors. Many staff are so worn down by cost-cutting and disputes with management that they've long forgotten BA's "To Fly. To Serve" motto. "They give United a run for their money," complains one traveller. Privately, BA executives admit service can vary from best-in-class to what one calls "chicken or beef bog-standard awful".

Continuous cost-cutting is the wrong strategy, says Clifton. "BA used to stand for quality, innovation, aspiration, service. Yes, BA has more competitors and they are aggressive, but there are different ways to win. It's ill-advised for a brand with the equity of BA to try to compete at the bottom end of the market." It is even more important for BA to remain upmarket because IAG has just launched a long-haul budget carrier of its own, Level, based in Barcelona, adds Henry Hartevelde, of Atmosphere Research.

May's IT disaster encapsulates so much of what has gone wrong with BA. The airline knew its computer systems were wobbly. It had suffered three large-scale IT crashes in the 12 months before the meltdown. "We're prisoners of really old technology," Cruz admitted in his Skift interview. On board the show flight three months later, he added that BA's tech was "rocky". Yet he did not do enough to prevent disaster. Nor did he invest enough in procedures to deal with the aftermath. Although staff on duty tried their best, they had no clear plan to deal with passengers. TV bulletins at Heathrow and Gatwick airports were more helpful than the airline's managers.

One reason BA's response was so bad, I can reveal, is that when the power at its Boadicea House data centre at Heathrow went off, grounding all flights, it also went off at BA's corporate headquarters at Waterside, three miles away. "We had no working desktop phones and no computers," a source confirms. "We could not communicate." No one knows why. Telephones at check-in desks at Terminal 5 also went dead.

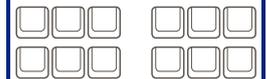
Cost-cutting is not only unhelpful but unnecessary, because BA is highly profitable. Operating profits at IAG have risen sharply from €503m in 2011 to €2.5bn in 2016. Operating profits at BA are up from £518m to £1.47bn in the same period. BA can and must dip into its cash pile and "invest more" →

SEVERE TURBULENCE



75,000

holidays and business trips ruined during May's IT meltdown



30 DAYS

of strikes this summer by cabin crew protesting against "poverty pay"



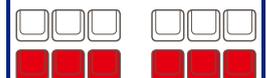
29in

Legroom in economy on BA's new jets — less than Ryanair



45%

Fewer than half of BA's passengers would recommend the airline



TOP AIRLINES OF 2017

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 - 2 SINGAPORE AIRLINES
 - 3 ANA ALL NIPPON AIRWAYS
 - 4 EMIRATES
 - 5 CATHAY PACIFIC
 - 6 EVA AIR
 - 7 LUFTHANSA
 - 8 ETIHAD AIRWAYS
 - 9 HAINAN AIRLINES
 - 10 GARUDA INDONESIA...
-
- 30 AEROFLOT
 - 33 VIRGIN ATLANTIC
 - 40 BRITISH AIRWAYS
 - 41 EASYJET
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heavily and quickly” to rebuild its service, fleet and reputation, says Tarry.

Is there a way back for the red, white and blue tailfin? Yes, Cruz told me on the Dreamliner flight. His big idea is to split BA in two, making it a premium airline at the front of its planes and a budget one at the back. The market has polarised, he explains. The rise of no-frills carriers, notably easyJet and Ryanair in short haul and Norwegian in long haul, has made the economy class market “a commodity product. What people want is a cheap ticket,” he said. Adding more seats and scrapping free food mean lower prices — Cruz is aiming as low as £21 one way to Alicante and £379 return to New York, Florida and Dubai. That’s cheap enough to compete with the low-cost carriers.

The premium market, on the other hand, is becoming ever more premium, thanks to the rise of the Gulf airlines — Emirates, Etihad and Qatar — and heavy investment by American operators in business and first class. As a result, Cruz is, at long last, beginning to invest — but only for the pampered few. He has just opened the First Wing at Heathrow Terminal 5 to speed gold-card holders and first-class passengers through check-in, bag drop and security and into the lounge in as little as five minutes.

The first-class cabins on many new jets are being configured to have only eight seats to make them more exclusive. In Club, he’s introducing new seats, which might mean the end of the current “back-to-front” configuration, where one forward-facing passenger sits opposite a rearward-facing neighbour, which many passengers and crew regard as cramped and awkward. Better food and wine are on the way. New and refurbished lounges have opened or are opening in 18 key cities.

Cruz reckons all the new perks at the pointy end, which will cost £400m, will mean premium passengers will fall in love with BA again, as they did when it pioneered lie-flat beds in Club in the 1990s. Meanwhile, at the back, economy passengers will come to view BA as superior to the budget airlines because it now competes on price and also flies to and from the best and best-located airports and has the biggest route network.

After I landed at Heathrow, just 30 miles away from where I’d taken off on the Dreamliner, I decided to ask one of the most astute observers of the industry whether Cruz’s “two airlines in one” strategy could work? “No,” said Paul Griffiths, who helped to create Virgin Atlantic’s distinctive brand before going on to run Gatwick airport and now Dubai International, the world’s busiest international hub. “In the modern consumer marketplace, you have to stand for something clear and deliver it consistently,” he explained. “It doesn’t matter whether it’s cheap like Ryanair, or it’s premium, like Virgin Atlantic. The customer knows what to expect and can choose the product they want.”

Others are more hopeful. Andrew Lobbenberg, senior aviation analyst at HSBC, says: “The new positioning reflects the reality of the aviation market. The strategy could work, if it’s implemented well.” The director of JLS Consulting, John Strickland, who worked for numerous airlines, including BA, before becoming an analyst, points out that most other big carriers, including even the mighty Emirates, are

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struggling with overcapacity and may also soon start charging for food in economy. “In 10 years’ time, Cruz may be seen to be a visionary,” he says.

What are the early signs? The new First Wing at Terminal 5, which Cruz calls, with his trademark bluntness, “the rich people area”, is a big improvement — but not exactly revolutionary. Virgin Atlantic has had its own private wing for Upper Class passengers at Heathrow Terminal 3 for 20 years. BA’s new lounges are better, but still lag behind Virgin, Singapore Airlines, Emirates, Qatar, Etihad and Qantas. The new Club seat will be a vital improvement, but it will not be ready until 2019 and will initially be available only on new A350 and Boeing 787-10 jets that together will represent a tiny fraction of the airline’s 137-plane long-haul fleet. And BA’s competitors are not standing still. Emirates is poised to introduce all-new premium “air suites” that will raise the bar even higher in the race to attract the “get there fast’n’flash” classes.

The new food and wine that Cruz showed off on the 787 flight is better than most of BA’s competitors’, but it won’t deliver for the airline if staff remain as grumpy as they are now. Regular customers complain that cabin crew take so little interest in new menus that they don’t know what’s on offer. Cruz needs to win back the loyalty of his staff and their love for the airline. The latest extended summer strikes are not a good sign, to put it mildly.

Cruz has pledged not to “Ryanair-ise” short-haul economy, but his words ring hollow for many regular travellers. They moan that the payment system for the new buy-onboard (Bob) food is too slow. “If you’re not sitting in the front half of the cabin, you don’t get anything,” is a frequent complaint. Worse, many flights run out of food, especially on return legs, earning Bob the nickname Nob — “Nothing onboard”. Cruz has admitted “we had a rough start” and has pledged to speed up service and load more food, including his favourite Percy Pig sweets.

If things don’t improve — and fast — there is a risk that the “fly off in two directions at once” strategy “could create the worst of both worlds”, warns Clifton. “BA will be as ‘bad’ as the budget carriers at the back of the bus and remain behind its racy competitors at the front.”

As he left Heathrow at the end of the show flight, Cruz told me that our national carrier is about to enter “exciting times”. That’s a 39,000ft-high understatement. The Spaniard will either go down as a split-personality visionary who put BA back ahead of the flying pack — or the cost-cutter who crash-landed Britain’s flag carrier ■