Extended Essay

in

Business and Management

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Title: The decision to merge Qantas and British Airways.

would?
Research Question: Will a merger between Qantas Airways Ltd and British Airways Plc be more beneficial for the two companies than their current strategic alliance?

Word Count: 4,000

Abstract

The purpose of this extended essay is to determine whether a merger between Qantas and British Airways would be more beneficial for the two companies than their current strategic alliance (**one**world).

The research question is:

Will a merger between Qantas Airways Ltd and British Airways Plc be more beneficial for the two companies than their current strategic alliance?

The question was researched using a number of secondary resources from relevant stakeholders including: Qantas, British Airways (BA), **one**world Alliance, the International Air Transport Association (IATA), the Centre for Asia Pacific Aviation and a Massachusetts Institute of Technology 'Global Airline Industry Program' report. These sources are supported by news articles relevant to the subject matter.

The information gathered has been analysed to provide an overview of the global airline industry, outlining its need for consolidation. The analysis further profiles both entities, demonstrating company specific attributes which underline the mutual benefits that would accrue through a merger. An analysis of the **one**world Alliance also details the importance of strategic alliances for airlines and in particular for Qantas and BA.

Information gathered from newspaper articles and relevant quotes have been used to provide an overview of the failed merger proposition of 2008 and the changes that have occurred since. The key issues have been evaluated and then used to investigate the prospect of the same merger occurring today. A force field analysis further examines the driving and restraining forces for this business combination.

The essay outlines several economic advantages which accrue to both companies as a result of merging and illustrates the enhanced market position of the merged entity. Improved market conditions since 2008 represent another significant factor in favour of merging.

The analysis concludes that a merger between Qantas and BA today is more beneficial for them than their current strategic alliance.

Word Count: 300

Contents

Introduction

On the 2nd of December 2008, Qantas Airways Limited and British Airways PLC (BA) confirmed rumours that the two companies were "exploring a potential merger" designed to slash costs and "shore up the two airlines against the turbulence of the global recession."[1] This potential AU$8 billion merger would have created an airline with a significant share of major airline routes with average annual sales of about AU$36 billion.

The proposed merger would have built upon the **one**world® Alliance, the strategic alliance to which both airlines currently belong. In this strategic alliance, "a global alliance that brings together eleven of the world's biggest and best airlines"[2], Qantas and BA work together with other members to reap a number of benefits such as code sharing, sharing of airline facilities and sharing best practice, which help to reduce member airline costs and increase revenues.

However, before talks had even begun, the proposed merger faced a number of obstacles. Key challenges included the merger ratio, the organizational structure, the economic environment and the benefits for shareholders.[3] The challenges were such that within two weeks of the discussions being publicly disclosed, Qantas and BA announced that they were abandoning the plans.

These talks were held at the end of 2008, in the midst of the global financial crisis. While many companies, including Qantas and BA, are still reeling from the effects of this global recession, there are indications that the global economy is rebounding, presenting an opportunity for them to revisit the merger proposition. The decision to merge in the current economic climate and further their current business relationship provides the basis for this extended essay:

Will a merger between Qantas Airways Ltd and British Airways Plc be more beneficial for the two companies than their current strategic alliance?

[In order to maintain the focus of the extended essay, the merger deal BA has with the Spanish airline, Iberia, and its consequences for a Qantas-BA merger have been omitted.]

The investigation for this essay will involve analysing the airline industry, the current positions of Qantas and British Airways and the benefits of the **one**world Alliance for each company. Following the investigation, an analysis of the failed 2008 merger will be compared with an analysis of a similar merger in the current economic climate. A conclusion will then be drawn based on the results of both the investigation and the analysis.

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[1] Totaro, P (2008) British Airways Confirms Qantas 'tie-up' Talks. *The Age,* Wednesday December 3 2008
[2] **one**world (2009), ***one**world*, viewed 27 March 2010, < http://www.oneworld.com/>
[3] Creedy, S (2008) Qantas-British Airways merger deal falls through. *The Australian,* Friday *December 19 2008*

Investigation

The Global Airline Industry

The nature of the global airline industry is inherent to an analysis of the decision to merge two passenger airlines such as Qantas and BA. The industry is highly competitive and has become increasingly so over the past decade. Saturated with over 2,000 airline carriers, all vying for some two billion passengers annually[4], airlines have had to implement a number of measures in order to stay competitive and ultimately survive.

The competitive challenges faced by the world's leading airlines are compounded by the industry's susceptibility to change in the external environment. These challenges include: climatic conditions, fuel price volatility, vulnerability to global pandemics, terrorist attacks and the global financial crisis since 2008. All of these exceptional circumstances have been catalysts for substantial drops in passenger numbers and consequently airline profitability (See Fig. 1).

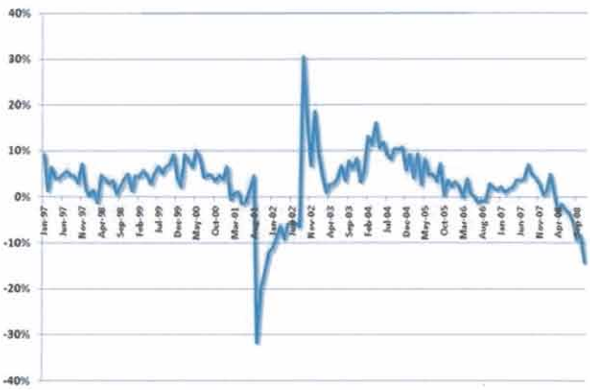

Figure 1-A graph showing the percentage change in airline passenger numbers worldwide from June 1997 to September 2008[5]

With a view to stemming the loss of passengers, airlines, recognizing the price elasticity of their service, have reduced prices to record lows. Consequent declining revenues have accentuated the pressure on achieving company and industry-wide efficiencies and, not surprisingly, re-opened the debate on the benefits of a merger.

[4] Massachusetts Institute of Technology (2007), *Global Airline Industry Program*, viewed 28 March 2010, <http://web.mit.edu/airlines/index.html>
[5] Kedrosky, P (2009), *Domestic Airlines Traffic Decline Most Since 9/11*, viewed 28 March 2010, <http://paul.kedrosky.com/archives/2009/02/12/domestic_airlin.html>

"'The state of the airline industry today is grim. Demand has deteriorated much more rapidly with the economic slowdown than could have been anticipated even a few months ago. Our loss forecast for 2009 is now US$4.7 billion. Combined with an industry debt of US$170 billion, the pressure on the industry balance sheet is extreme,' said Giovanni Bisignani, IATA's Director General and CEO.[6]"

In response to the numerous pressures on airlines operating within the industry, consolidation has become integral to ensure survival. The three main airline alliances, including **one**world, to which Qantas and BA belong, now account for around two-thirds of the total world airline capacity (ASKs)[7], encompassing all but two of the world's 20 biggest airlines.[8] Figure 3 shows the profitability of the global airline industry in the 21st century.

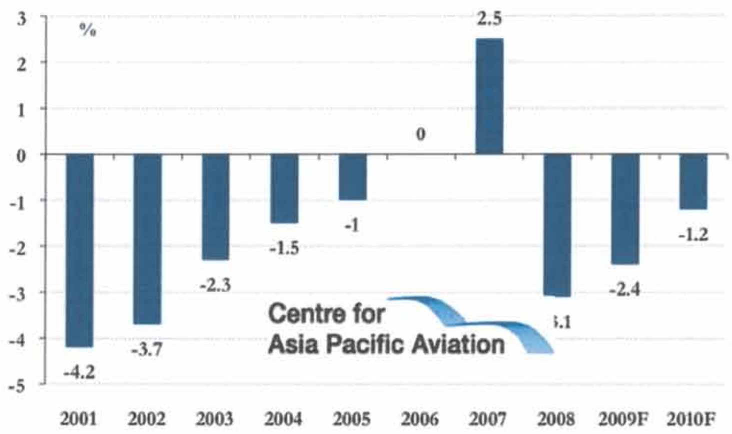

Figure 2- A graph showing the global airline industry's net profit margins from 2001 to 2010F[9]

Mergers are commonplace in the airline industry, with numerous mergers and acquisitions throughout its history. Most notably, the merger between Delta Airlines and Northwest Airlines in 2008 has resulted in the world's largest airline carrier. The Centre for Asia Pacific Aviation believes that 2010 is the time for airlines to merge, following clear signs of the

[6] IATA (2009), *Grim Prospects- Deep Recession, Bigger Losses*, viewed 28 March 2010, <http://www.iata.org/pressroom/pr/2009-03-24-01.htm>
[7] Available Seat Kilometres (available seats x distance flown)
[8] **one**world (2010), *An introduction to **one**world: the alliance that revolves around you*, viewed 28 March 2010, < http://www.oneworld.com/content/factsheet/W1_2010-02-24%20Introduction%20to%20oneworld.pdf>
[9] Centre for Asia Pacific Aviation (2009), *IATA predicting wider industry loss of USD5.6 billion for 2010, due to yield weakness,* viewed 29 March 2010 <http://www.centreforaviation.com/news/2009/12/16/iata-predicting-wider-industry-loss-of-usd56-billion-for-2010-due-to-yield-weakness/page1>

global economy's recovery and tentatively following the success of the Delta-Northwest merger[10].

Due to the surplus of airlines in the industry, it is becoming increasingly competitive and hence mergers are now being considered as the most plausible step in consolidation efforts. For BA-Qantas, a merger would present a number of significant opportunities:

- A merger can act as a means of survival, allowing the airlines involved to join together, increasing their market share and reducing competition in the industry.
- A merged company will enjoy the benefits of synergy and also the potential for diversification into different geographic and demographic markets.
- The opportunity to exploit economies of scale is also an ever-present potential advantage of mergers. BA-Qantas could lower their average costs of production in many areas by virtue of their size.
- A merger can also drive a new culture that is better aligned with the new organisation's goals.

These opportunities deliver benefits to an extent not equalled by the current strategic alliance.

The global economy's gradual recovery from the financial crisis presents an opportunity for airlines to merge, having already exposed the numerous weaknesses inherent in the industry. A merger can present weakened airlines with a survival strategy, whilst also presenting opportunities for airlines such as Qantas, who have survived the crisis relatively intact, to take advantage of the increased susceptibility of weaker airlines to mergers and takeovers.

Nevertheless, the major obstacle to a BA-Qantas merger is the differing government regulatory barriers around the world. For example, US law limits foreign ownership of US airlines to only 25%, while foreign ownership of EU airline carriers is limited to 49.9%. In Australia, Qantas must remain at least 51% Australian-owned.

However, as recently as March 2010, a draft agreement has been put forward by Europe and the US to remove these outdated foreign ownership restrictions.[11] This accord would allow EU airlines to have majority stakes in US airlines and vice-versa. This, though, would require legislative change in the EU and US and is still only a draft.

Culture clash and the inevitable dilution of control are potentially two of the many barriers that could prevent a BA-Qantas merger getting off the ground. In addition, the ever-present

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[10]Centre for Asia Pacific Aviation (2009), *Airline Alliances and Merger Talk Eclipses Bankruptcy,* viewed 3 April 2010 <http://www.centreforaviation.com/news/2009/12/21/airline-alliances-and-merger-talk-eclipses-bankruptcy/page1>
[11] West, K (2010), *BA-American Airlines Tie-up Moves Closer*, Associate Newspapers Ltd, viewed 29 March 2010, < http://www.dailymail.co.uk/money/article-1260759/BA-American-Airlines-tie-moves-closer.html>

fears of airline mergers leading to higher prices and less choice for customers is a hurdle the industry must overcome. However, as put by Giovanni Bisignani, director-general of the International Air Transport Association:

"Mergers and consolidation is a must ... No other industry is so fragmented, so we have to consolidate in order to build more efficiency"[12]

Regardless of the differing views towards the airline industry, most experts agree that in the future there will be fewer airline carriers, whether through mergers or bankruptcies.

Qantas

Qantas is Australia's largest and most successful airline. Qantas's head office is located in Sydney and its two major hubs are the Sydney and Melbourne airports. Qantas is currently listed on the Australian Securities Exchange (ASX) and has a market value of approximately AU$6 billion. As a major Australian company, it is subject to several governmental and self-imposed regulations pertaining to foreign ownership:

- Qantas's head office must be in Australia
- The chairman must be Australian
- The maximum allowable aggregate foreign ownership is 49%

Qantas's subsidiaries, in particular Jetstar and Qantas Freight, provide additional revenue for Qantas, with Jetstar the next largest international airline carrier in Australia. Qantas's investment in Jetstar gives the company a high level of diversification, providing it with some financial security. While Qantas continues to develop its premium airline service, it develops Jetstar, its low-cost airline, in tandem, exploiting their two-brand strategy to provide varied revenue sources.

The Qantas group has a fleet of over 246 aircraft, operating more than 6,000 flights each week and flying 38 million passengers in the 2009 financial year.[13] The vast majority of Qantas's flights are within the Asia/Pacific region with limited others reaching the Americas and Europe. Through **one**world and Qantas's codeshare agreements, Qantas is able to serve destinations all over the world (see Fig. 3).

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[12] Reuters(2010), *IATA Chief Says More Airline Mergers A Must,* Business Spectator, viewed 17 June 2010, < http://www.businessspectator.com.au/bs.nsf/Article/UPDATE-1-IATA-chief-says-more-airline-mergers-a-mu-4FAQV?opendocument&src=rss >

[13] Qantas Annual Report (2009) Pgs. 8, 16, 17

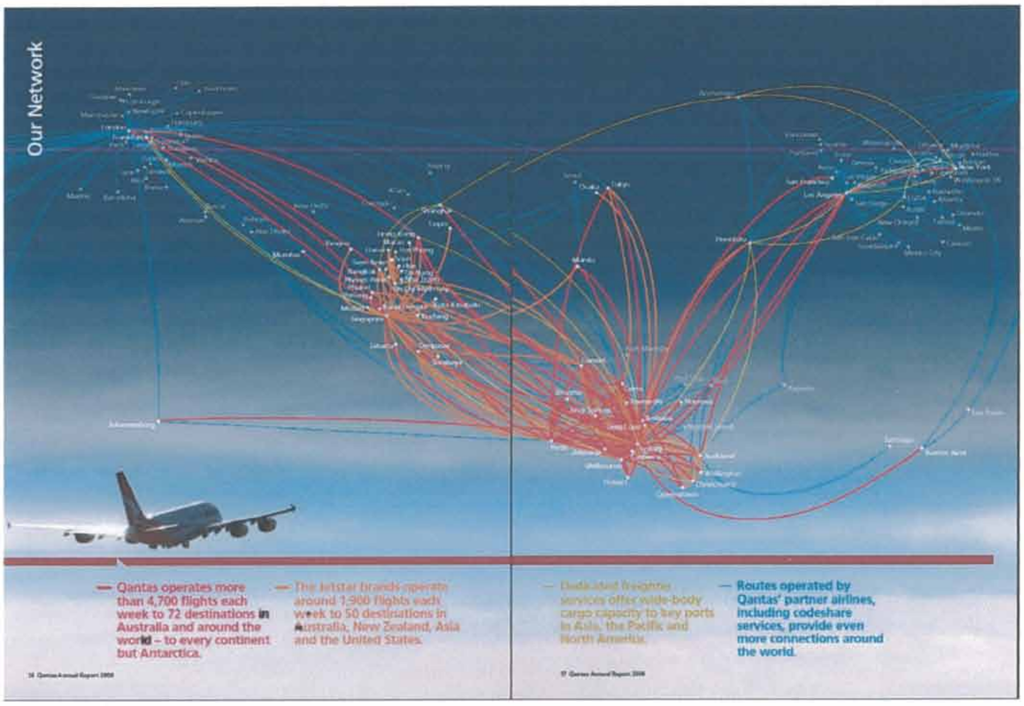

Figure 3-Qantas's diagram of the routes flown by Qantas, Jetstar, Qantas codeshare partners and Qantas's cargo function.[14]

Qantas has remained very competitive despite the tough economic conditions of recent years, posting a net profit before tax of AU$181 million for the year ended June 31, 2009 while many of its competitors, including major US airlines, posted net losses.

Qantas has recently undergone a large transformation in the way the company is structured and the business is run. They have stripped back management layers to speed up decision-making and to give their frontline people more power.[15] Frontline staff have also received additional training and education benefits through Qantas's new AU$10 million Centre of Service Excellence. This has resulted in a flatter structure for the company with better qualified and more capable employees, enabling Qantas to be more effective and more productive. Qantas currently has approximately 33,000 full-time employees.

At the heart of their operations are their operational systems and processes. Their main IT platform is Amadeus[16], the same platform used by BA and all but two of the 11 **one**world members. Qantas has several Boeing and Airbus aircraft, relying on both suppliers to produce high quality planes to suit their different needs.

[14] Qantas Annual Report (2009) Pgs. 16,17
[15] Joyce, A (2009), *CEO's Address- Qantas Annual General Meeting 2009*, Qantas
[16] **one**world (2009), ***one**world at a glance*, viewed 29 March 2010 <http://www.oneworld.com/content/factsheet/W2_2009-11%20at-a-glance.pdf>

British Airways

British Airways (BA) is the UK's largest international airline, serving over 148 destinations worldwide. Their Head Office is located in Waterside, England and its two major hubs are Heathrow and Gatwick Airports. Listed on the London Stock Exchange (LSE), BA has a market value of £2.9 billion (AU$4.8 billion). Under current EU regulations (but subject to change), BA cannot be more than aggregate 49.9% foreign owned.

BA, its cargo service and its codeshare partners provide the airline with a number of sources of revenue in the company's ongoing efforts to shore itself up against the constant pressures of the external economic environment.

With a fleet of 245 aircraft it also operates over 6,000 flights every week, flying some 33 million passengers in the 2009 financial year. BA flies predominantly in Europe and the Americas, with but a small number of flights to the Asia/Pacific region (see Fig.4).

Figure 4- British Airways' diagram of the routes flown by British Airways.[17]

Due to the global financial crisis, BA has suffered in recent years, posting a net loss before tax of £401 million (AU$661 million) in the 2009 financial year. However, they have, in the same period, greatly improved operational efficiency in an effort to reduce costs.

British Airways too, has undergone a large-scale restructuring of the organisation in efforts to improve the company's efficiency and productivity. They have made it a clear goal to

[17] British Airways Annual Report (2008/09) Pg B

develop a leaner, more agile structure starting at the top of their business.[18] As a consequence the airline is now a much flatter, leaner and more efficient organisation, currently employing over 40,000 full-time employees.

As with Qantas, BA uses Amadeus as its main IT platform. The airline also relies on both Boeing and Airbus as the main suppliers of its aircraft.

oneworld **Alliance**

Qantas and BA are members of the **one**world alliance, one of three major alliances in the airline industry, the other two being SkyTeam and Star Alliance. Whilst the smallest in terms of member airlines, **one**world is the most profitable, providing solid, additional revenue sources for its members.

Most major airline carriers belong to one alliance or another, and with good reason. In this competitive and volatile industry, airlines that remain independent are disadvantaged. Alliances provide multiple benefits to individual airlines:

- Increased demand and globalization means that customers want to fly to more places, more easily and for greater value. However, government restrictions and the nature of the industry make it virtually impossible for any one airline to meet these demands on its own.
- Strategic alliances facilitate airline success through greater efficiencies, greater revenues, cost reductions and faster growth.
- By joining alliances and teaming with other airlines, companies can expand their operations into new countries, taking their passengers to more destinations and providing smoother and easier transfers from airport to airport.

The **one**world alliance has enabled its members to improve their productivity, efficiency and growth in a number of ways. On the ground, at airports around the world, the advantages of **one**world are obvious. Member airlines co-locate, sharing facilities such as ticket offices, check-in facilities and lounges. For example, at London's Heathrow airport, the **one**world members have moved into two terminals rather than being spread across all five, as was previously the case. This has allowed for smoother, faster transfers and allows the airlines to provide these facilities at better unit costs. Best practice is another significant advantage of the **one**world alliance:

"Heads of the Engineering and Maintenance functions at each ***one****world member airline agree to develop common specifications as widely as possible across their engineering and maintenance activities, to align their policies and procedures, to work together to develop and support solutions that can be applied throughout the industry and to share best*

[18] British Airways Annual Report (2008/09) Pg 35

practice, enabling them to reduce costs through bulk buying and by sharing parts between one another."[19]

Overall, alliances in the industry are clearly beneficial for airlines, permitting them to increase revenues, efficiency and market share. However, as stated by the CEO of Star Alliance, Jaan Albrecht:

"The alliance is never a guarantee for the airlines to be profitable. It's not a formula for survival. What we have seen over 12 years experience is that the alliance is basically the icing on the cake."[20]

Analysis

The Merger-2008

The merger proposed between Qantas and BA in December 2008 was one that attracted much interest. The companies announced on the 2nd December that they had been in private merger talks for some time. The plan was to set-up a dual-listed company, with Qantas and British Airways listed on their respective stock exchanges, but run by a single management organisation. It was predicted that the formation of this powerful new airline would have long term benefits for both.

As Qantas and BA were, and still are, members of the oneworld alliance, with a number of codeshare agreements between them, a merger would allow each company to consolidate on the benefits they already gain through their **one**world partnership.

However, despite the obvious longer-term benefits for each company, a number of factors led to the abandonment of the merger. Talks began in the midst of the global financial crisis, a period of exacerbated uncertainty for such a significant undertaking. The balance sheets of both Qantas and BA had taken a hammering in preceding months, placing each in a less financially secure position. To compound matters, BA had to contend with the enormous £3.7 billion in debts from its two pension schemes.

The key issue for the two companies was the proposed merger ratio. Qantas and the Australian government would not allow British Airways to have more than a 49% stake in the new company. British Airways however would not settle for anything less than 50% even though Qantas was the larger company in market value at the time (British Airways had a value of AU$4.2 billion whilst Qantas had a value of AU$4.4 billion). Further, EU regulations limit foreign ownership of British Airways to 49.9%.

[19] **one**world (2010), *An introduction to **one**world: the alliance that revolves around you*, viewed 28 March 2010, < http://www.oneworld.com/content/factsheet/W1_2010-02-24%20Introduction%20to%20oneworld.pdf>
[20] Cable News Network (2009), *Transcripts*, viewed 29 March 2010, <http://archives.cnn.com/TRANSCRIPTS/1001/12/qmb.01.html>

Culture clash could have been a notable restraining force in the decision to merge Qantas and BA. While the two companies come from similar Anglo-Saxon backgrounds, differences in management styles and the expectations of managers are likely to exist and could pose difficulties for the planned merger.

The new corporate governance structure also became a key problem. As the headquarters of each company are so far apart, geographically, it would be virtually impossible to amalgamate the two into one location. Hence, under the dual-listed model, it is likely that the company would have two separate headquarters, each running the individual arms of the business, joined by an integrated management team.

Inevitably, redundancies are going to be a result of such a significant merger and this could prompt resistance from the respective governments and trade unions, adding further pressure against the proposition.

Based on the elements outlined in the above analysis, a Lewin's force field analysis[21] summarises the driving forces and restraining forces for the merger decision and ranks them based on their perceived relative weightings[22].

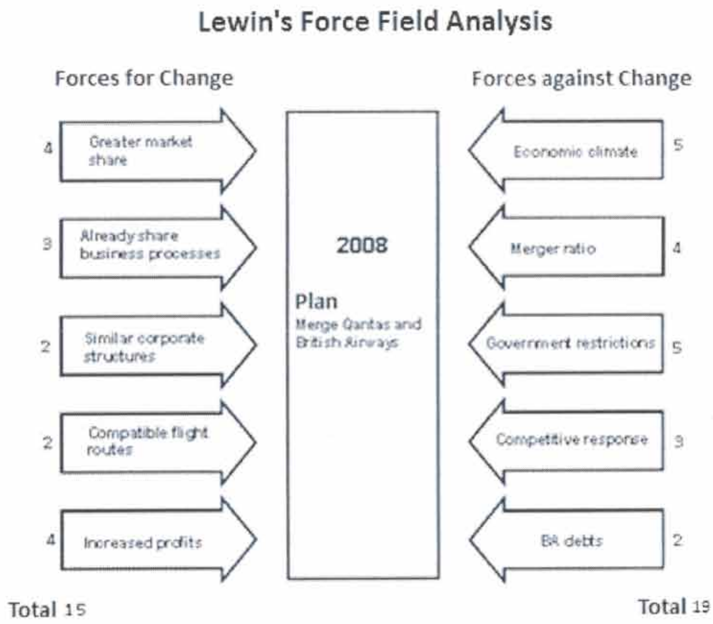

Figure 5- Lewin's Force Field Analysis for a Qantas-BA merger in 2008

[21] Hoang, P (2007) *Business and Management.* IBID Press, Victoria Pg. 142
[22] The force field analysis is my own construction and the values are subjectively awarded based on the previous analysis.

The implication of the suggested (subjective) outcome is that in the context of the 2008 planned merger, the disadvantages outweigh the advantages and the proposition should be abandoned.

The Merger-Now

In the 15 or so months that have ensued since the original discussion and failings of the proposed merger, much has changed. The global economic environment has shifted dramatically; market conditions have been improving and there are signs that the economy is rebounding. While the EU and the UK have been ravaged by the effects of the global economic downturn, Australia has, in large part, been buffered. Hence, Qantas's market capitalisation has risen from AU$4.4 billion to AU$6.3 billion while BA has risen from AU$4.2 billion to just AU$4.7 billion.

This suggests that Qantas is now a significantly larger company than British Airways in terms of market value, and hence a merger based on current market values would, in theory, give Qantas a controlling share. This removes the issue of having to contend with the Australian cap on foreign ownership as Qantas would retain more than 51% of the newly formed company. Combined with the potential removal of foreign ownership restrictions for BA through the EU-US draft deal, government restrictions that played a role in preventing this merger 15 months ago may no longer prove to be an obstacle.

However, this deal is still in draft form and does not directly relate to Australia, although it could signal changing government attitudes to consolidation in the industry. Also, BA's views towards having a minority stake in the new company are unknown, and despite the changed fortunes of the two companies, could still be a complication.

In addition to the improved financial positions of both airlines, BA has made significant headway into its pension fund debt issue. In March 2010, BA struck a deal with trade unions that will see it slash its deficit within the two pension schemes. This plan, which will see debt levels significantly reduced, is set to place the company in an even stronger financial position, making the potential merger between the two a much less risky proposition.

As the above analysis suggests, the improvement in global economic trading conditions makes a merger a more feasible option than it was when the merger was initially proposed in 2008. This is due to the companies' and the industry's improving attitude towards mergers in the industry and the change in market values of the two companies, potentially alleviating the issue of foreign ownership, at least on Australian soil. However, there are a number of driving forces for a merger between these two companies that remain unchanged.

Qantas and BA are members of the same alliance; this already presents a number of advantages for both companies that can be further consolidated in the event of a merger.

Due to their partnership in this strategic alliance, their facilities are already co-located at dozens of airports around the world. This means that in the event of a merger, the costs of amalgamating the respective business processes and operations would be significantly reduced.

As members of the **one**world alliance, where business processes are to a large extent consistent between members, Qantas and BA already share the same IT platform, making an amalgamation of the separate data systems much easier. This also means that existing operational similarities further simplify the amalgamation process.

Inherent in their current strategic alliance is the sharing of best practice. Members of the **one**world alliance currently achieve this through aligning their engineering policies and procedures and through developing common specifications. Hence, in a merger between the two companies, the engineering departments will have complementary systems and processes, reducing the level of change that each must undergo and making the merger a more seamless process.

The corporate structures of Qantas and BA are quite similar; in recent years both have reduced the multiple layers of management within the business, resulting in a flatter and leaner structure. The previously proposed dual-listed company model complements the corporate structures of each company very well. Due to the difficulty in creating a single management headquarters, it is likely that the merged company will have to keep two separate headquarters, one each in Australia and the UK. This means that there will be less need for redundancies as management teams will need to be in place to run each arm of the business.

As previously demonstrated, Qantas's flight routes are predominantly in the Asia/Pacific region, whereas BA's routes are focused in Europe and the US. This provides a unique opportunity for each company as together they would have a significant share of the major routes in Europe, Asia/Pacific and the US. This would create a formidable organisation with the largest individual reach of any airline, providing huge benefits to each company, their shareholders and their customers.

The unification of these two companies would greatly benefit their customers. With the increased size and power of the company, it would benefit greatly from purchasing, marketing and financial economies of scale, and the resultant savings would ultimately flow through to customers. With the increased capacity of the merged airline and the large number of destinations served, it would be easier and cheaper for its customers to travel around the world. This would improve customer loyalty and in turn attract many new customers to the airline, hence raising business revenues. This is also boosted by the fact that Qantas and BA employ similar frequent flyer schemes, making the initial transition process an easier and smoother one for customers.

Figure 6- A current comparison of Qantas and BA

Business Aspect	Qantas	British Airways
IT Platform	Amadeus	Amadeus
Fleet Size	>246	245
Flights per Week	>6000	>6000
Primary Destinations	Asia/Pacific	Europe and the Americas
Worldwide Destinations	>150	>300
Passengers in 2009	38 million	33 million
Currency	AUD$	GBP£
Corporate Structure	Flat, lean structure	Flat, lean structure
Employees	33,000	40,000
Strategic Alliance	Oneworld	Oneworld
Current Market Value	AUD$ 6.3 BILLION	AUD$ 4.8 BILLION
Primary Aircraft Suppliers	Boeing and Airbus	Boeing and Airbus

The force field analysis below, although subjective in nature, suggests, consistent with the above analysis, that currently the arguments in favour of a merger (change) outweigh the opposing arguments. In 2008 the opposite was true.

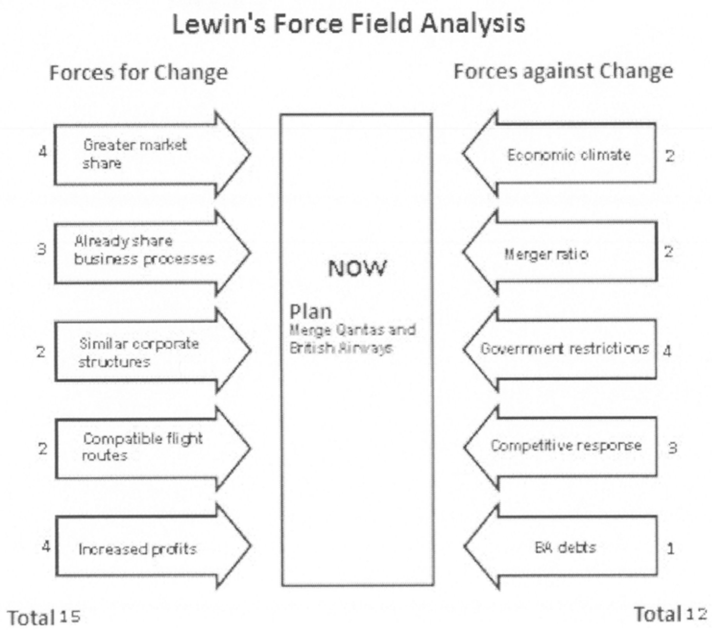

Figure 7- Lewin's Force Field Analysis for a Qantas-BA merger now

Conclusion

The results of the investigation suggest that a merger under current economic conditions will be more beneficial for both Qantas and British Airways than their current **one**world alliance partnership.

It is clear that alliance membership places both airlines in a better position than if they were operating as stand-alone organizations. While benefits accrue through this alliance, mergers are more stable given their formal structure and more permanent nature.

As the analysis shows, a merger consolidates the advantages of the partnership while simultaneously conferring additional, more critical benefits, including synergy, the opportunity to more effectively exploit economies of scale and the opportunity to develop and propagate a new corporate culture. Environmental, financial and other crises are omnipresent, and a lean, merged, efficient airline is more likely to survive these challenges than a smaller, weaker entity.

The investigation demonstrates how the improvement in global economic conditions since late 2008 and consequent changing industry attitudes significantly enhance the prospect of a merger between Qantas and British Airways. The force field analysis, whilst somewhat simplified and subjective, demonstrates that whilst the driving forces for the merger have remained largely unchanged, the restraining forces have diminished, making the merger more feasible now than it was 15 months ago.

Government restrictions regarding ownership limits placed on each airline remain an as yet unresolved complication. Also, whether or not British Airways will accept being the minority stakeholder in the combined entity remains unknown and could yet derail merger plans.

Nevertheless, a merger is still the better option for both Qantas and British Airways than their current strategic alliance partnership.

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