

International Business Strategy Report

Virgin Atlantic's Further Expansion in China



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Executive Summary

Virgin Atlantic is an airline which provides air transport service connecting the UK and all over the world. On its road of global expansion, Virgin Atlantic keeps innovating to provide better service for its passenger including its newest A350 aircraft with advanced cabin design and on-air entertainment, and more comfortable seats with wider space (Virgin Atlantic, 2019). It was rewarded as the world 7th best airlines (Smith, 2019). The airline also has its travel agent – Virgin Holidays to sell its passenger hotels night and tours (Virgin Holiday, 2019). Furthermore, the airline is aiming to provide a lower rate for customer travel from/to the UK instead of paying a higher rate with its competitor British Airways (Virgin, 2019). These factors will increase Virgin Atlantic's competitiveness when passengers would like to book a flight from the UK (even Europe) to its global destinations. However, the airline is facing some challenges. First, it faces fierce competition with British Airways at the UK's hub airport – London Heathrow, where British Airways takes dominants position to suppress Virgin's development (Virgin, 2019). Second, its current strategy should be adjusted, which is mainly focusing on the North American market and neglecting to develop in fast-growing Far East market. Its long-term absence in this region, especially China, has given other Asian carriers time to grow up and start to compete in cross-continent air transport businesses (CAPA, 2019). The strategic plan to develop its business will be further expanding in China by operating a new route from London to Beijing rapidly by building a strategic alliance with China Eastern and setting a "contributor" subsidiary. It will catch the trend of current fast developing outbound tourism in China and the dramatic increase in the number of Chinese students in the UK to meet the growing UK-China flights capacity need. Also, it can break the over 30 years' monopoly on the fast-growing and profitable route which connecting two countries capital by Air China and British Airways. Most important, it is a way to help the airline obtain more profits in China and the Far East market to balance its global expansion and development.

Introduction

As the UK is still suffering the uncertainty from Brexit, Pounds Sterling's value these two years (See figure 1) has caused an increase of operating expense including currency exchange cost and fuel cost (Virgin Atlantic, 2019). It also has influenced the frequencies of travel abroad for British people. The number of trips abroad from the UK slightly decrease by 1.4% in 2018 compared to that in 2017 (Johnson, 2019). Current Virgin Atlantic's strategy is mainly focusing on UK-US air transport market with other a few destinations across the world (Virgin Atlantic, 2019). From figure 2, it shows that this strategy works well due to the stability of this segment also lead to a gradual increase in operating revenue from 2016 to 2018. However, as the company is seeking to expand by Heathrow Expansion Scheme to provide more destinations accessibility to challenge dominants position of British Airways in UK's hub airport, and also popularity of far east destination increasing (Virgin Atlantic, 2019). A further expand for Virgin Atlantic is needed to face the challenge of issues caused by Brexit and opportunity provided by Heathrow Expansion Scheme.

Strategic Plan

Whether to become multinational or further expand in foreign markets?

Virgin Atlantic should expand further in foreign markets as a global company due to its nature of business (See Table 1). The company use Heathrow airport as its hub offering air transport service for passengers between the UK and all over the world. The core business activities – operating flights, which needs the headquarter to arrange aircraft and crew members from the UK base to all different countries (Virgin Atlantic, 2019). As for overseas offices of the airlines, they only take support functions, including marketing and customer service and also needs to follow the company's standards (Virgin Atlantic, 2019). Table 2 analyses core FSAs and supporting FSAs which can support Virgin Atlantic to operate international flights to other countries.

Which foreign market to expand (Location choice)?

The foreign market should expand for Virgin Atlantic is China, and the next destination which the airline needs to operate is the capital – Beijing, at its newest and most advanced Airport in the world – Beijing Daxing Airport (See figure 4). As Figure 5 shows, Beijing is one of the cities which the company considering to enter with its Heathrow expansion plan (Virgin, 2019). Table 3 is the comparison among three capitals of three East Asian countries (China, Japan and South Korea) with tourism and air transport data in country level, industry level and company level. It shows London – Beijing route is most valuable for the company which has the full of potential to keep growing. In 2030, China will become the largest inbound tourism market all over the world. (See Figure 7). Apart from the data listed, China also has other advantages such as a large number of students studying in the UK and rapidly developing business with the UK (See Table 4).

Which entry mode to choose, based on the analysis of alternative entry modes?

According to J.P Morgan Securities (2010), when airlines need to operate a new long-haul flight, it should follow a product development process (See Table 5 & 6). Building strategic alliances with local airlines would be the right way for Virgin Atlantic to enter Beijing, as it can balance freedom of control and to the extent of resource commitment (See Table 7).

Baxter (2019) introduced a model of the factors which influence airlines to form relationships of strategic alliances (See Table 8). Also, the analysis of this model and comparison with another entry mode applied to Virgin Atlantic to cooperate with Chinese Airline – China Eastern to operate this new route has been given in table 9. By building a strategy alliance, both of the airlines' capacity on UK-China routes will take 19% to challenge British Airways. China Eastern can provide service for Virgin's passengers to other Chinese or Asian cities to help Virgin further expand to this market without huge expenditure to take risks of opening a new route to London in others Chinese cities. It is a win-win strategy for two airlines. Due to the limitation of International Air Rights Resource Allocation and Usage Policy of Civil Aviation Administration of China (2019), this route does not have any capacity can be allocated to any Chinese airlines, as Air China is currently operating it and China Southern has been approved to fly this route. China Eastern needs Virgin's capacity to provide service for its customers who have needs to travel to London to compete with Air China and China Southern.

When to enter this market?

For this market, Virgin Atlantic should use rapid entry strategy based on high strategic importance and high firm's ability to exploit the market (See table 10). Table 11 gives the reasons why Beijing can apply such important for the airline for both aspects.

Which ownership mode?

Figure 17 shows Virgin Atlantic's group structure with subsidiaries. When the subsidiary has weak location advantages when they are operating in a foreign market and needs to be given strong competences, companies should use contributor mode (See table 12). As for the ownership mode, "Contributor" should be chosen due to the nature and function of airlines business. Table 13 analysed the factors which make the airline should use this ownership mode.

Conclusion

In conclusion, there are two main risks due to the strategies discussed above. First, as discussed before, China Eastern cannot operate the Beijing – London route due to policy limits. However, if the policy changed in the future, China Eastern may join the competition on this route as well. The relationship of the strategic alliance will face uncertainty in the future. Tillinghast (2015) introduced 5 steps to manage the alliance relationship (See table 15). Second, a rapid entry strategy will cause an increase in international transactions. The airline may suffer the increasing level of foreign currency exchange risks due to current political issues around Brexit and US-China trade war. Morrel (2016) pointed 2 methods to deal with it (See table 15).

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...generic IB strategies? – what is a pitfall?

① Level of global efficiency	high	Global [global commodities]	Transnational [cultural, regulated goods and services]
	low	International [local commodities]	Multidomestic [look'n'feel goods and services]
② Level of local responsiveness		low	high

Read more: [Bartlett and Ghoshal \(1989\)](#) and [Guillen \(2002\)](#).
Collis. Ch 5. Generic International Strategies.

Table 1. Different International Strategies. (Source: Verbeke, 2013).

Core FSA:	
Market Experience	Virgin Atlantic Has 40 routes connecting the UK and countries/regions (*Note 1) across the world.
China Market Experience	In China, it has operated 20 years on Shanghai – London route.
Service & Innovation	Virgin Atlantic is building on the £300 million invested in customer experience (Virgin Atlantic, 2019). Virgin's has ordered and received A350-1000 aircraft which can offer passengers wider and taller cabin to make economy class guests feel more comfortable with more space. The airline upgrades their on-air entertainment system with larger 11.6 inches screen which allows passengers to connect with their smart devices. On the business class, they designed a lounging area with a big screen to enhance high-end customers social needs and experience. Also, they bettered their seat, which allows all the passengers facing windows and offering more privacy and comfortableness (Godfey,2019).
Reputation	Virgin Atlantic has awarded as the world 7 th best airlines (Smith, 2019). It has the world's best premium economy class seat and best business class lounge (SKYTRAX, 2019).
Human Capital Movement	Virgin has operated in Shanghai for 20 years. It is easy to transfer the know-how and people to their new destination in Beijing. The company does not need to overcome the cultural distance as they already have enough experience in the same country.
Aircraft Fleet	As figure 3 shows, the airlines have a total 46 aircraft and mainly most advanced and young age fleet such as 17 Boeing 787, 4 Airbus 350-1000 and 10 Airbus 330-300. These aircraft have a higher capacity with lower fuel consumption and lower CO2 commission to operate international flights (Leigh, 2019).
Heathrow Expansion Scheme	Under government's Heathrow Expansion plan, Virgin Atlantic announced its own Heathrow Expansion Scheme to expand its business at Heathrow airport by offering more routes to all over the world to challenge British Airways' current dominants position (Virgin, 2019).
Offer service beyond just transporting passengers	Virgin Atlantic maximum the profits by going beyond only provide passenger transport business, which is running a holiday and a cargo company. Virgin Atlantic owns its holiday business called Virgin Holidays. It is a travel agent and tour operator which running business deeply connected with Virgin Atlantic's flights. Customers can book flight + hotels + extra(experience) when they book a flight (Virgin holidays, 2019).

	Virgin Atlantic also owns a cargo business. It helps clients to transport their goods with Virgin's flights between the UK and all their destinations (Virgin Atlantic Cargo, 2019).
Better connect service between the UK and all over the world	Virgin Atlantic has finished acquisition to a domestic and European regional airline – Flybe. It also renamed the company to Virgin Connect to provide seamless routes between the UK and all over the world (Virgin Connect, 2019).
Supporting FSA:	
Virgin group support	Virgin Atlantic belongs to Virgin Group which is built by Sir Richard Branson. The estimated net worth of the group is \$4 billion (Virgin Group, 2019). The group can provide support for Virgin Atlantic.
Virgin membership	<p>Virgin Atlantic has launched a new Virgin wide loyalty programme across all the Virgin branded companies to attract customers from the group (Virgin Atlantic, 2019).</p> <p>Virgin Atlantic is cooperating with Virgin Money Bank and has launched Virgin Atlantic Miles Credit Card to help customers to earn and spend miles (Virgin Money UK, 2019).</p>
Partnership with Delta, KLM, Air France	Virgin has built a joint venture with Delta and KLM-Air France group to have wider cooperation with their routes, mainly focusing on the US and Europe market (Baxter, 2019).
Finance	As Figure 2 shows, Virgin Atlantic's working capital keeps a stable amount which allows they have enough available cash in hand when they expand their business.
<p>Note:</p> <ol style="list-style-type: none"> 1. Virgin Atlantic flies to the US, Canada, India, Mainland China, Hong Kong, South Africa, Nigeria, Israel, Brazil, Jamaica and other Caribbean countries. 	

Table 2. FSAs analysis of Virgin Atlantic.

	London – Beijing (China Mainland)	London – Tokyo (Japan)	London – Seoul (South Korea)
Country Level			
Business trade with the UK (Ranking)	6 th	14 th	15 th
GDP	\$13.41 trillion 2 nd of the world	\$5.60 trillion 3 rd of the world	\$2.14 trillion 12 nd of the world
Country Population	1.42 billion	126.8 million	51.47 million
Number of people who have passports	127 million	12 million	N/A
Overall Rating of Country	Essential and Full of potential	Important	Important
Industry Level			
Number of outbound tourists to the UK 2018	391,380	246,957	161,201
Average growth rate of tourists' number to the UK last 5 years	16.04%	0.96%	-3.91%
Number of inbound tourists from the UK 2018	608,000	333,999	77,097
Average growth rate of tourists' number from the UK last 5 years	0.98%	0.84%	3.9%
Ranking of Inbound tourism	4 th	16 th	19 th
Market Maturity	Raising market and more possibility to develop and the most valuable market to the UK	Matured and important market	Matured and decreasing market

Overall Rating of Industry	Most valuable and promising market	Stable market	An important market which is facing Slight declining
Company Level			
Competition with peers	<p>In this route:</p> <p>Air China 3 flights Daily (Beijing Capital Airport Only)</p> <p>British Airways 1 flight Daily (Beijing Daxing Airport Only)</p> <p>China Southern 1 flight Daily (Not start operating yet)</p> <p>Not possible to increase capacity for Chinese Airlines in the short term due to the rule of policy</p> <p>Other routes:</p> <p>Shanghai to London</p> <p>Guangzhou to London</p> <p>Chengdu to London</p> <p>Wuhan to London</p> <p>Tianjin to London</p> <p>Chongqing to London</p> <p>Xian to London</p> <p>Zhengzhou to London</p> <p>But Beijing takes 30% of the overall</p>	<p>In this route:</p> <p>British Airways 2 flights Daily (Tokyo Narita and Haneda Airports both)</p> <p>Japan Airlines 2 Flights Daily (Tokyo Haneda Airport only)</p> <p>All Nippon Airways 1 flight Daily (Tokyo Haneda Airport only)</p> <p>Another route:</p> <p>London – Osaka</p>	<p>In this route:</p> <p>British Airways 1 flight daily</p> <p>Korea Air 1 flight daily</p> <p>Asiana Airlines 1 flight daily</p> <p>No other direct route to this country</p>

Overall Rating of Companies competence	Fierce competition but the potential for development and easy to entry due to huge increasing demand	Difficult to break the monopoly because of stable demand and enough supply	Difficult to break the monopoly because of demand decline and enough supply
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Table 3. Country Level, Industry Level and Company Level data analysis among Beijing, Tokyo and Seoul. (Source: Visit Britain, 2019).

Chinese Students in the UK	First, Chinese students will contribute to this route because the UK government announced two years post-study work visa policy for international students who will register a degree (or higher level) course. Last year alone, there are over 100,000 Chinese students came to the UK to study (See Figure 8). This policy will boost the number to keep growing (GOV.UK, 2019). In 2019, application from Chinese students to the UK universities has gone up 30% since last year (Weale, 2019). Student travels will benefits airlines which operating UK – China route.
China – UK business	Second, from political and economic views, the UK and China are in a “golden era”, the trade between the two countries has grown more than eight times between 1999 and 2017 (Crookes, 2018). Among 52 billion USD direct investments in all the EU countries from Chinese firms, the majority of transactions have happened in the UK (Casarini, 2016). Focusing on the raising east – China is the what British companies’ reaction to Brexit. The UK needs more effort to trade with non-European countries (Goh, 2018). This will contribute to increase of business travel between two countries.

Table 4. Other aspects of China Market Advantages.

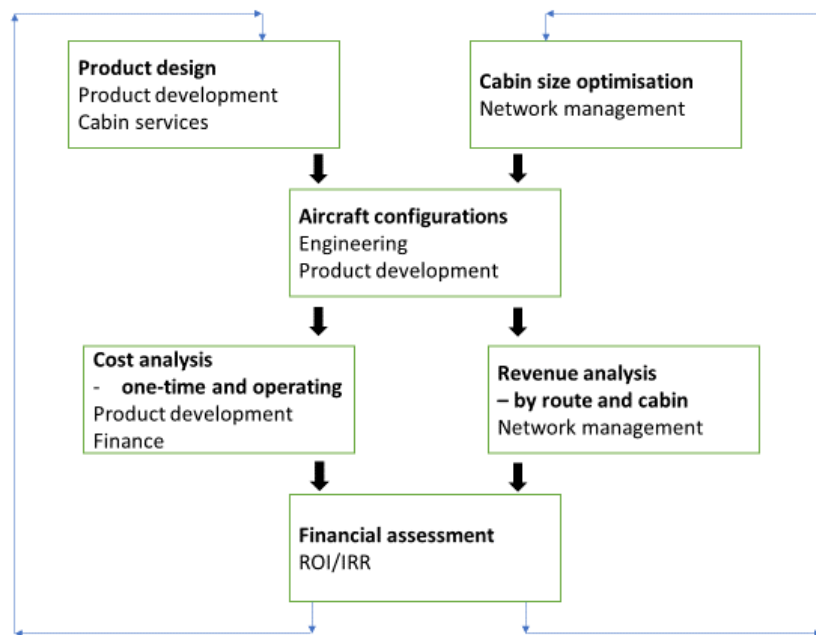


Table 5. The product development process. Source: (J.P Morgan Securities, 2000).

Product Design	<ul style="list-style-type: none"> - Provide Chinese speaking crew on board and check-in assistants in London Airport - Use differentiation strategy at price and service to enter the market. (*Note 1) - Design service based on Chinese people's preference and combine with current Virgin Group and British culture (*Note 2)
Cabin Size Optimisation	<ul style="list-style-type: none"> - Virgin has awarded the Best Premium Economy Class in the world by Skytrax due to excellent service and larger space in this class (Skytrax, 2019). It can be introduced to this new route and promoted as a unique selling point.
Aircraft Configurations	<ul style="list-style-type: none"> - Use different aircraft to operate flights based on peak or low season competitiveness (*Note 3)
Cost Analysis	<ul style="list-style-type: none"> - As the flights are an international route to China. The mainly cost will be operating cost and fuel cost. However, as currently on-going US-China trade war and Brexit, Foreign currency cost should be considered as a risk. (*Note 4)

Revenue Analysis	<ul style="list-style-type: none"> - As the data analysed before in Table 3, the market for this route is still developing and boosting rapidly in recent years. It will bring considerable long-term profit for the company due to the demand. As for the revenue for the cabin, Virgin can focus on the Premium Economy Class, which is less input but higher output cabin.
Financial Assessment	<ul style="list-style-type: none"> - Virgin Atlantic is facing profits declining recent 3 years. As Far East market not fully developed, introducing Beijing route is needed for reserve current financial situation. (See figure 2 & figure 9)
<p>*Note:</p> <p>1. Virgin is a full-service airline, providing air Wi-fi, touch screen system, full-service meal and roomy cabin. It cut unnecessary cost, but not level down the service provide (Martin, 2019).</p> <p>2. Virgin has operated some selected flights based on preferences of the target market, including LGBT pride flights with LGBT crew and onboard performance, and Star Wars theme flights with related decoration and menu to the US (Virgin, 2019). Virgin can develop special flights and service for China as well. For example, they can design a returning universities/ graduation theme flights for Chinese students which they can buy group tickets with a discount that they can travel with the family together also provided free extra luggage for them and connection to their universities.</p> <p>3. For the airlines industry, it has strong seasonality. For leisure and student travellers, it will strongly be influenced by public holidays (Gosling, 2014). As shown in Figure 3, the fleet is formed with various aircraft with different capacity, and it provides the flexibility for operation.</p> <p>4. As Virgin Atlantic (2019) published in 2018 annual report, they are controlling the non-fuel operating cost by their internal policies. It was 1.2% lower than in 2017. For foreign currency cost, it should be altered, and the company should keep following politics news to minimise this risk as the trade war is not going to finish in the short term.</p>	

Table 6. Product development process analysis for London – Beijing Route.

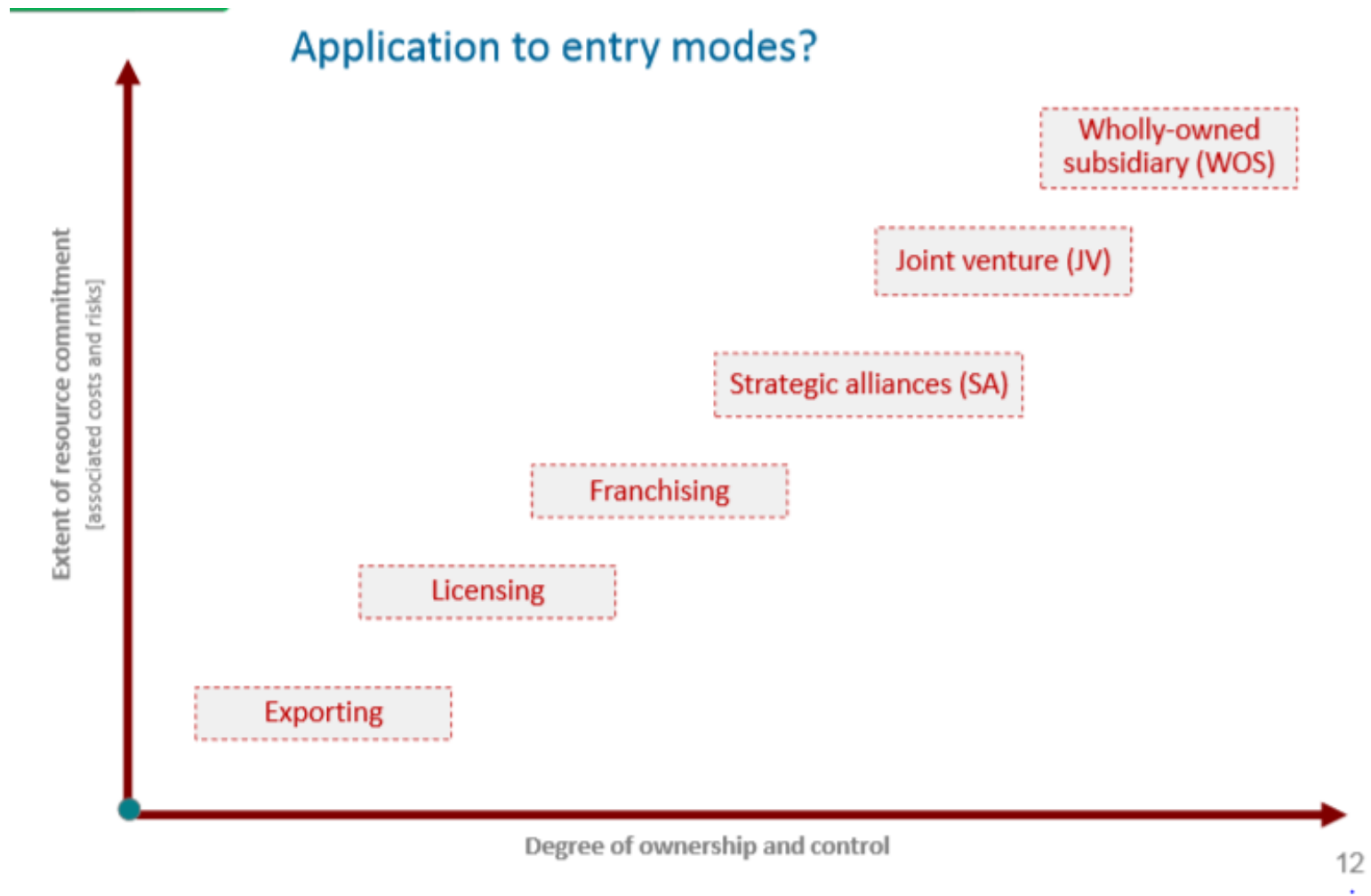


Table 7. Different types of entry modes. (Source: Verbeke, 2013).



Table 8. The factors influencing the formation of strategic alliances and joint ventures in the global airline industry. (Source: Baxter, 2019).

Strategy Evaluation Dimensions	Strategy Alliance with China Eastern	Wholly owned subsidiary
International Air Transport Market Access	British/European Passenger can access more Chinese/Asia Pacific city by transit in Beijing, and Chinese Passenger can access more Virgin's destinations by transit in London <ul style="list-style-type: none"> - Due to international air services agreements, airlines must obtain freedoms of air to operate flights (Morschett, Schramm-Klein and Zentes, 2015). However, it is not possible to operate a China domestic route/a route between China and a third country for Virgin. By cooperating and code sharing with China Eastern at Daxing Airport, customers of Virgin are able to access more destination in China/Asia Pacific when they book tickets with Virgin. 	Passengers who travelled from the UK cannot book Chinese domestic routes with the London – Beijing/ Shanghai flight. They must book in the separate itinerary.
	Better Access to International Market	
Global Seamless Networks	To reduce the travel time and have better travel experience during passengers transiting at Beijing/London <ul style="list-style-type: none"> - By building an alliance partnership, each other's passenger does not need to check in twice, and their luggage can be sent to their final destinations. 	Passengers have to check in twice when they transit in China.
	Better Seamless Network	
Shape Level of Market Competition	By allying with China Eastern, both companies together can take 19% of the whole UK-China air transport market. It will be just ahead of British Airways to break the BA's dominants. (See figure 10) <p>China Eastern is able to sell more tickets to British/European passengers</p> <ul style="list-style-type: none"> - As explained before, it can break the monopoly by British Airways and Air China in this route. As China Eastern cannot open this route by the policy limitation, cooperate with Virgin also benefits China Eastern's Beijing flights. It will be a win-win strategy for both companies. Also, as British Airways has built a partnership with China Southern to connect the UK and China's air 	Virgin is still facing increasing competition and challenges with all the Chinese Airlines and British Airways.

	transport business. The strategic alliance with China Eastern is increasing more important for Virgin to compete with British Airways.	
	Stronger competitiveness with an alliance	
Risk Sharing	Strategy alliance does not need to take responsibility for whole operation risks and costs	Virgin Atlantic has to take all the risks when it expands its air transport business in Beijing.
	Better Risk Sharing	
Access to Assets & Resources	Airlines can sell partner's tickets, access airport facilities, exchange each other time slots and trade other valuable assets (Evans, 2001).	Virgin Atlantic has to invest to destinations' airport to gain access of lounge, also need to compete with other local airlines to achieve time slots.
	More Access to Assets & Resource	
Economics of Scale, Scope & Learning	Two airlines can learn experience in operating business in markets with their own cultural/resource advantages.	Virgin Atlantic has to pay higher prices to purchase airline supporting resource.
	Better	
Maintain Market Presence	Promoting Virgin Atlantic's brand in China It is a way to promote Virgin to get more awareness by Chinese customers because it is a partner of China Eastern.	No influence.
	Better	

Table 9. Enter Model Comparison between Strategic Alliance and Wholly Owner Subsidiarity.

Strategic Importance	High	Phased-in Entry [create bridgehead]	Rapid Entry [full-frontal invasion]
	Low	Ignore for now [focus on domestic market]	Opportunistic entry [small margins]
		Low	High
		Firm's ability to exploit the market	

Table 10. Framework for timing of entry. (Source: Verbeke, 2013).

Strategic Importance	Firm's ability to exploit the market
<ul style="list-style-type: none"> - Beijing is the gate of China Beijing is the capital of the People's republic of China. As figure 11 shows, 30% of Chinese tourists come to the UK are from the region, which is the most significant number across the country. Also, when it refers to China number of inbound tourists, Beijing ranked as the first among all the regions and cities of China (UNWTO, 2017). - Fast passenger traffic growth As Figure 12 shows, Chinese tourists to the UK is rapidly developing. There were 327,081 Chinese tourists take Beijing to London flight to visit the UK. (See Figure 13). Also, the number of British tourists to China is significant and also keeps a stable level as data shows in table 3. The airlines also can benefit from the continuously increasing numbers of Chinese students studying in the UK (See Figure 8), especially after the new post-study work policy released. - Importance of Daxing Airport The new airport, Beijing Daxing International Airport is designed for release operation pressure of current Beijing Capital International Airport. In long-term, it is forecasted to be the busiest airport based on the fast-growing air traffic among China and the world (Blair, 2019). Also, the airline has a higher chance to obtain a better take-off and landing time slot (* Note 1) from the new built airport instead of from fully used Beijing Capital Airport (*Note 2). 	<ul style="list-style-type: none"> - Benefits from Policy of China As a foreign airline for China, Virgin is the only company able to operate this operate the direct route to Beijing apart from British Airways. (*Note 6) In the short term, there will only China Southern Airlines join the competition instead of all other raising Chinese airlines, including Hainan Airlines and China Eastern. - UK government Support Virgin considers Beijing as part of Heathrow Expansion Scheme destinations. Government supports Virgin to compete with British Airways to provide more choice for customers with lower fares. (*Note 7) Also, to enter this route, Virgin can break the monopoly by British Airways and Air China. - Experience from Shanghai The airline has operated its Shanghai route for 21 years. It has an office in Shanghai to support its business. - Easy to move As the market is not the first time to enter, the airline can easily move human capital to expand its business.

<p>- Post-Brexit Consideration For post Brexit period, the UK's economy will have further cooperation with China. Also, the number of Chinese tourists is still keeping growing (See Figure 12), which has significant impacts on the UK's inbound tourism. Therefore, the capacity of this route should be increased.</p> <p>- Hong Kong Market Uncertainty Hong Kong Protesting affects the desire of tourists and business traveller to visit or transit the city negatively. Beijing and other Far East cities may take opportunities to attract tourists who were intending to Hong Kong. (*Note 3). Due to uncertainty of Hong Kong politics, promote Beijing as the second transit hub for Virgin's Kangaroo route (UK – Australia) (*Note 4) even other Far East area cities by collaborating with other airlines, as Beijing has more access and routes. (See Figure 14)</p> <p>- Importance of Far East Market The growth of inbound tourism over 20 years in the Far East will contribute to the success of this route. (*Note 5) For this market, Virgin Atlantic still can develop to improve its performance compared to other markets (See Figure 15).</p>	
High	High
<p>*Note:</p> <p>1. To avoid the chaos which the infrastructure cannot meet the demand of aircraft taking off and landing, airlines need to acquire slots from the airport before operating a new flight (IATA, 2019). Also, time slots shortage is one of the most important issues affecting current world air transport industry (Zografos, Madas and Androutsopoulos, 2016).</p> <p>2. Before the new Beijing Daxing Airport built, Beijing Capital Airport has reached 98 percent of the slot capacity at the airport. (A reasonable amount should be 80%). As the busiest airport in China, also second busiest airport all over the world, it causes many delays in airlines operation (Luo, 2017).</p>	

3. UK governments have announced safety and security travel alters regarding Hong Kong protesting. The continuous and endless political movement has led to many cancellations of flights to the city (GOV.UK, 2019). The number of inbound tourists has dropped 40% compared to last year, and flights reservation to Hong Kong has decreased 10% since the beginning of the unrest (Martin, 2019). According to Tai (2019), since the anti-government protests started, tourists skipped Hong Kong to visit Japan, Thailand and Singapore.
4. Virgin Atlantic has a partnership with Virgin Australia. Two airlines from the same group to operate the UK – Australia route by codeshare. Customers can fly from London to Hong Kong, and transit to another flight to Australia (Virgin Australia, 2018). However, due to underperformed business and widespread protests in Hong Kong, Virgin Atlantic decided to axe service from Brisbane to Hong Kong (Freed, 2019).
5. Compared top 20 most popular countries/regions in 1990 with those in 2019, there are significant changes which are many Far East countries/regions' rank dramatically increased. China has leapt from 12th to 4th place (Smith, 2018) (See Figure 15).
6. Based on the nature of Beijing – London route, it requires Air transport company has 3rd and 4th freedoms of the air (Boeing, 2009). Therefore, the route must be operated by airlines from China or the UK. Virgin Atlantic is the only company that has the business plan and available aircraft to enter Beijing route. This route is under consideration by Virgin's management (Arlidge, 2019).
7. Virgin Atlantic announce its expansion plan to challenge the dominant position of British Airways by increasing its long-haul routes network. Because IAG (British Airways' owner) controls half capacity at Heathrow, customers may pay 10% more airfares. By governments' Heathrow expansion plan success, Virgin Atlantic can compete fairly with British Airways and operate more routes (Virgin, 2019).

Table 11. Analysis of framework for timing of entry.

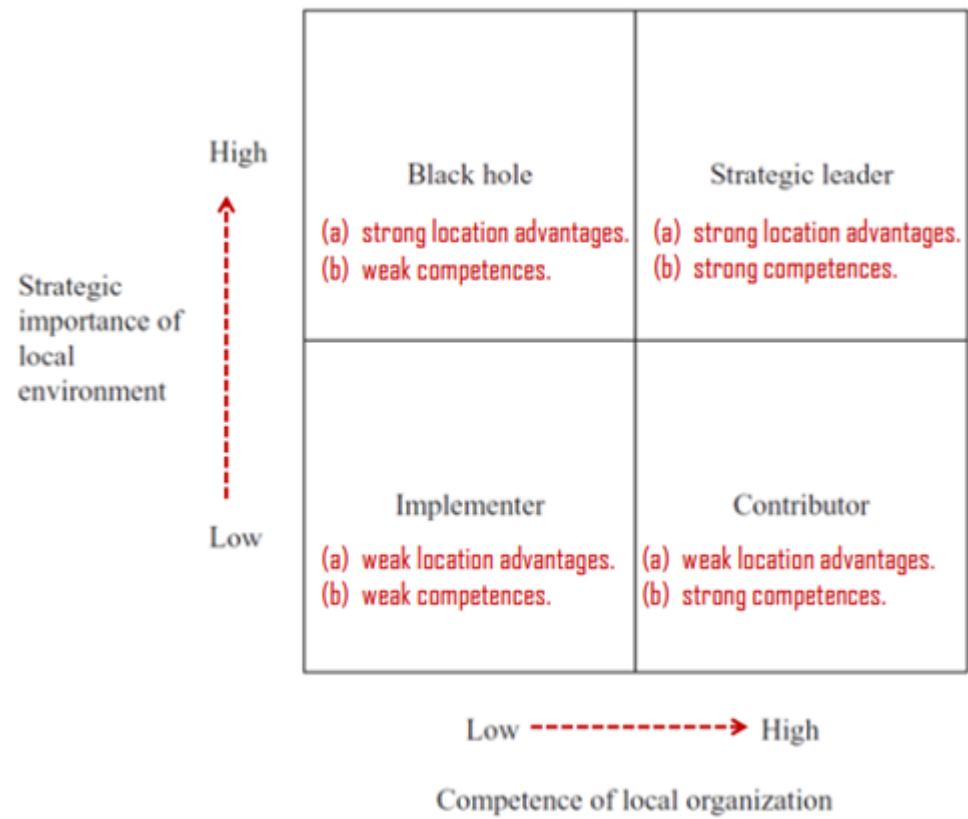


Table 12. Ownership mode of subsidiaries. (Source: Verbeke, 2013).

Strategic Importance of Local Environment	Competence of Local Organisation
<ul style="list-style-type: none"> - Although it is an important market, the airline only has 2 routes. It will not have many advantages in the whole of China's air transport market. - Due to the freedom of air transport, Virgin is only able to expand on China – UK routes. It is not able to fully compete with local airlines. - Although Virgin has advantage on Beijing – London route, it is still hard to enter to other cities due to policies, legal issues and local protectionism. - It is not allowed to have an independent legal entity for any foreign airlines in China (FASCO, 2019). 	<p>Virgin Atlantic's headquarter has to give more competence and empowerment to support the operation of the air transport business between the UK and China due to these reasons:</p> <ul style="list-style-type: none"> - Far cultural distance (See Table 14) - Difference legal system. Figure 16 shows there are big gaps in rules of law and impendence of the legal system. It requires the subsidiary to deal with related law issues locally instead of following the headquarter. - Respond fast when it comes to emergency (as the nature of airlines business). When there is any guests/crew need assistants of Ambulance & Emergency or terrorists, the local office has to have competences to stand for Virgin to solve problems. - Localise their marketing, customer service and passenger assistant. With more empowered competences, Virgin is able to provide service in Chinese ways to fit the local culture.
Low	High

Table 13. Analysis of ownership mode. (Source: Doganis, 2019).

	Home Country [United Kingdom]	Host Country [China]
Cultural Distance		
PDI	35	80
IDV	89	20
MAS	66	66
UAI	35	30
Overall Distances	0	82.5
International Property Rights Index		
IPRI	8.044	6.033
Legal and Political	7.791	4.93
Judicial Independence	8.215	5.823
Rule of Law	8.358	4.474
Control of Corruption	8.686	4.46
Political Stability	5.903	4.962
Protection of Physical Property	7.869	7.148
Property Rights Protection	8.616	5.96
Registering Property	9.275	9.708
Ease of Access to Loans	5.715	5.777
Protection of Intellectual Property Rights	8.472	6.021
Perception of IP Protection	8.434	5.831
Patent Protection	9.083	8.833
Copyright Piracy	7.9	3.4
Corporate income tax	19%	25%

Table 14. Data of Cultural Distance and International Property Rights Index (Source: Internationalpropertyrightsindex.org, 2019).

Risk	Solutions
Managing relationship with strategy partners	<p>Based on the research of Tillinghast (2015), there are 5 steps to managing relationship with strategic partner, following:</p> <ul style="list-style-type: none"> - Building strong individual relationship with the strategy partners and its stakeholder - Having a deep analysis and understanding with the strategy alliance - Defining a clear cooperation strategy plan - Making sure have strong governance, monitoring and evaluation of strategy alliance relationship - Adjusting and refreshing company's strategies to suit the relationship
Foreign currency exchange risks	<p>There are two strategies can reduce the foreign currency risks during the uncertain period:</p> <ul style="list-style-type: none"> - Hedge with Forward Purchase The company can purchase the foreign currency with a singed exchange rate in a future date. - Hedge with Call Option The company have the right to buy foreign currency at some future date at an agreed rate of exchange by having call option.

Table 15. Risks and Solutions. (Source: Tillinghast, 2015 & Morrell, 2016).

Data Figures

GBP/USD

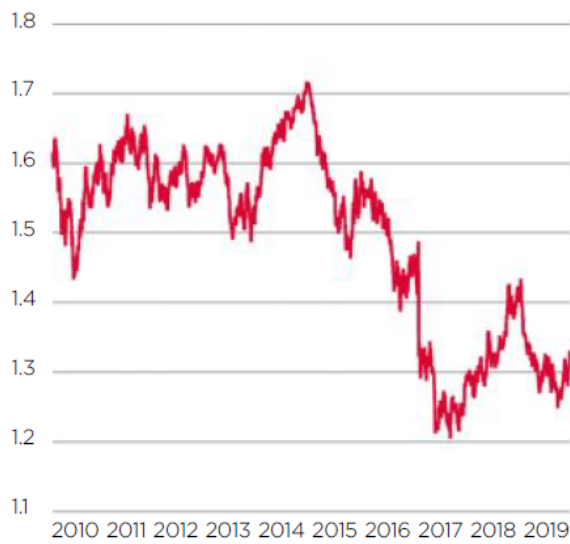


Figure 1. GBP/USD exchange rate 2010-2019. (Source: Virgin Atlantic, 2019).



Balance sheet	Profit & loss account	Global ratios			
Local registry filing/Consolidated	31/12/2018 th USD	31/12/2017 th USD	31/12/2016 th USD	31/12/2015 th USD	31/12/2014 th USD
	12 months Unqual IFRS	12 months Unqual Local GAAP	12 months Unqual Local GAAP	12 months Unqual IFRS	12 months Unqual Local GAAP
Exchange rate: GBP/USD	1.26955	1.35115	1.23020	1.48190	1.56080
Balance sheet					
Assets					
Fixed assets	1,277,167	1,209,145	1,077,532	1,078,082	846,422
Intangible fixed assets	219,251	229,831	201,999	184,497	133,917
Tangible fixed assets	1,021,733	949,589	826,817	804,523	711,881
Other fixed assets	36,182	29,725	48,716	89,062	624
Current assets	1,117,711	1,119,969	1,101,890	1,437,591	1,122,215
Stock	42,657	42,291	37,152	57,498	67,114
Debtors	210,999	200,511	168,906	201,538	238,334
Other current assets	864,055	877,167	895,832	1,178,555	816,767
Cash & cash equivalent	620,683	667,333	699,246	882,620	462,153
TOTAL ASSETS	2,394,878	2,329,113	2,179,422	2,515,673	1,968,637
Liabilities & Equity					
Shareholders funds	-25,518	-33,779	28,664	-243,032	-3,122
Capital	190,432	202,673	184,530	222,285	234,120
Other shareholders funds	-215,950	-236,451	-155,866	-465,317	-237,242
Non-current liabilities	823,176	741,511	768,260	726,279	309,038
Long term debt	675,781	613,152	569,337	538,671	16,701
Other non-current liabilities	147,395	128,359	198,923	187,609	292,338
Provisions	118,576	109,713	132,246	87,136	271,111
Current liabilities	1,597,220	1,621,381	1,382,499	2,032,426	1,662,720
Loans	36,944	29,590	26,572	80,023	63,056
Creditors	99,406	86,474	45,271	67,278	131,419
Other current liabilities	1,460,871	1,505,317	1,310,655	1,885,125	1,468,245
TOTAL SHAREH. FUNDS & LIAB.	2,394,878	2,329,113	2,179,422	2,515,673	1,968,637
Memo lines					
Working capital	154,250	156,328	160,787	191,758	174,029
Net current assets	-479,509	-501,412	-280,609	-594,835	-540,505
Enterprise value	n.a.	n.a.	n.a.	n.a.	n.a.
Number of employees	8,571	8,303	8,474	9,005	9,231

Balance sheet	Profit & loss account	Global ratios			
Local registry filing/Consolidated	31/12/2018 th USD	31/12/2017 th USD	31/12/2016 th USD	31/12/2015 th USD	31/12/2014 th USD
	12 months Unqual IFRS	12 months Unqual Local GAAP	12 months Unqual Local GAAP	12 months Unqual IFRS	12 months Unqual Local GAAP
Exchange rate: GBP/USD	1.26955	1.35115	1.23020	1.48190	1.56080
Profit & loss account					
Operating revenue (Turnover)	3,637,767	3,601,221	3,309,115	4,122,498	4,589,845
Sales	n.a.	n.a.	n.a.	n.a.	n.a.
Costs of goods sold	n.a.	n.a.	n.a.	n.a.	3,974,890
Gross profit	n.a.	n.a.	n.a.	n.a.	614,955
Other operating expenses	3,695,278	3,645,134	3,120,648	3,824,784	599,816
Operating P/L [=EBIT]	-57,511	-43,912	188,467	297,714	15,140
Financial revenue	9,141	-2,837	123,512	-158,711	56,033
Financial expenses	27,803	32,968	27,064	9,336	43,702
Financial P/L	-18,662	-35,805	96,448	-168,047	12,330
P/L before tax	-76,173	-79,718	284,914	129,666	27,470
Taxation	-27,422	-14,187	54,498	10,966	4,214
P/L after tax	-48,751	-65,531	230,416	118,700	23,256
Extr. and other revenue	n.a.	n.a.	n.a.	n.a.	n.a.
Extr. and other expenses	n.a.	n.a.	n.a.	n.a.	n.a.
Extr. and other P/L	n.a.	n.a.	n.a.	n.a.	n.a.
P/L for period [=Net income]	-48,751	-65,531	230,416	118,700	23,256
Memo lines					
Export revenue	n.a.	n.a.	n.a.	n.a.	4,487,301
Material costs	n.a.	n.a.	n.a.	n.a.	n.a.
Costs of employees	517,722	524,111	448,408	526,371	555,333
Depreciation & Amortization	135,842	142,141	143,441	132,037	99,267
Other operating items	n.a.	n.a.	n.a.	n.a.	n.a.
Interest paid	27,803	32,968	27,064	9,336	43,702
Research & Development expenses	n.a.	n.a.	n.a.	n.a.	n.a.
Cash flow	87,091	76,610	373,858	250,737	122,523
Added value	605,194	619,503	903,828	797,410	725,772
EBITDA	78,331	98,229	331,908	429,751	114,407

Balance sheet	Profit & loss account	Global ratios			
Global ratios					
Local registry filing/Consolidated	31/12/2018 th USD	31/12/2017 th USD	31/12/2016 th USD	31/12/2015 th USD	31/12/2014 th USD
	12 months Unqual IFRS	12 months Unqual Local GAAP	12 months Unqual Local GAAP	12 months Unqual IFRS	12 months Unqual Local GAAP
Exchange rate: GBP/USD	1.26955	1.35115	1.23020	1.48190	1.56080
Profitability ratios					
ROE using P/L before tax (%)	n.s.	n.s.	993.99	n.s.	n.s.
ROCE using P/L before tax (%)	-6.06	-6.61	39.15	28.76	23.27
ROA using P/L before tax (%)	-3.18	-3.42	13.07	5.15	1.40
ROE using Net income (%)	n.s.	n.s.	803.86	n.s.	n.s.
ROCE using Net income (%)	-2.63	-4.60	32.31	26.50	21.89
ROA using Net income (%)	-2.04	-2.81	10.57	4.72	1.18
Profit margin (%)	-2.09	-2.21	8.61	3.15	0.60
Gross margin (%)	n.a.	n.a.	n.a.	n.a.	13.40
EBITDA margin (%)	2.15	2.73	10.03	10.43	2.49
EBIT margin (%)	-1.58	-1.22	5.70	7.22	0.33
Cash flow / Operating revenue (%)	2.39	2.13	11.30	6.08	2.67
Enterprise value / EBITDA (x)	n.a.	n.a.	n.a.	n.a.	n.a.
Market cap / Cash flow from operations (x)	n.a.	n.a.	n.a.	n.a.	n.a.
Operational ratios					
Net assets turnover (x)	4.56	5.09	4.15	8.53	15.00
Interest cover (x)	-2.07	-1.33	6.96	31.89	0.35
Stock turnover (x)	85.28	85.15	89.07	71.70	68.39
Collection period (days)	21	20	18	18	19
Credit period (days)	10	9	5	6	10
Export revenue / Operating revenue (%)	n.a.	n.a.	n.a.	n.a.	97.77
R&D expenses / Operating revenue (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Structure ratios					
Current ratio (x)	0.70	0.69	0.80	0.71	0.68
Liquidity ratio (x)	0.67	0.67	0.77	0.68	0.64
Shareholders liquidity ratio (x)	-0.03	-0.05	0.04	-0.34	-0.01
Solvency ratio (Asset based) (%)	-1.07	-1.45	1.32	-9.66	-0.16
Solvency ratio (Liability based) (%)	n.s.	n.s.	1.33	n.s.	n.s.
Gearing (%)	n.s.	n.s.	n.s.	n.s.	n.s.
Per employee ratios					
Profit per employee (th)	-9	-10	34	14	3
Operating revenue per employee (th)	424	434	391	458	497
Costs of employees / Operating revenue (%)	14.23	14.55	13.55	12.77	12.10
Average cost of employee (th)	60	63	53	58	60
Shareholders funds per employee (th)	n.s.	n.s.	3	n.s.	n.s.
Working capital per employee (th)	18	19	19	21	19
Total assets per employee (th)	279	281	257	279	213

Figure 2. Balance Sheet, Profit & Loss, and Global ratios of Virgin Atlantic. (Source: Orbits, 2019).

Fleet Plan

Fleet at year end	2017	2018	2019
787-9	14	17	17
A350-1000	0	0	4
A330-300	10	10	10
747-400	8	8	8
A340-600	8	7	3
A330-200	0	4	4
Total	40	46	46
Ownership % ⁶	23%	26%	35%
Average age (years)	8.2	9.3	9.2

Figure 3. Fleet Plan of Virgin Atlantic. (Source: Virgin Atlantic, 2019).



Beijing Daxing International Airport Information

Built in	2014-2019
Passenger Terminal Areas	700,000m ²
Location	46km south of the city centre of Beijing
Mission	Developed to alleviate congestion at the capital's existing airport, Daxing Airport will be a major transport hub for the region with the world's fastest growing demand for international travel and is fully integrated within the country's expanding transport network.
Capacity	Initially serving 45 million passengers per year, Daxing Airport will accommodate 72 million travellers with 4 runways by 2025 and is planned for further expansion to serve up to 100 million passengers and 4 million tonnes of cargo annually.

Figure 4. Beijing Daxing International Airport Information. (Source: Zaha Hadid Architects, 2019).

Our plans for Heathrow expansion



Figure 5. Heathrow Expansion Plan of Virgin Atlantic. (Source: Virgin, 2019).

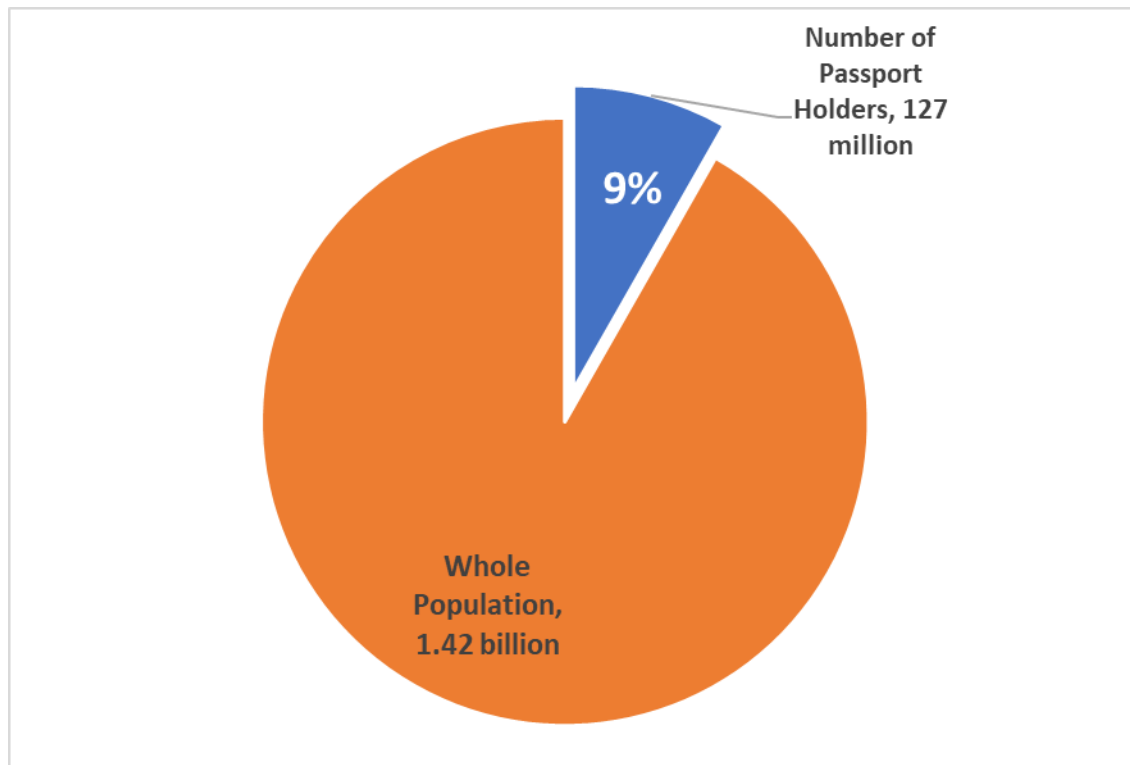
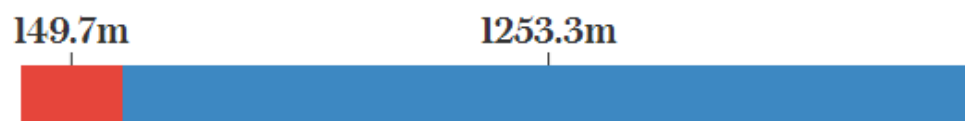


Figure 6. Number of Chinese Passport Holders. (Source: Smith, 2019).

At a glance | How China will account for nearly a quarter of global tourism

2018

■ Overseas trips by Chinese residents ■ All other overseas trips



2030

■ Overseas trips by Chinese residents ■ All other overseas trips



Figure 7. How China will account for nearly a quarter of global tourism. (Source: Smith, 2019).

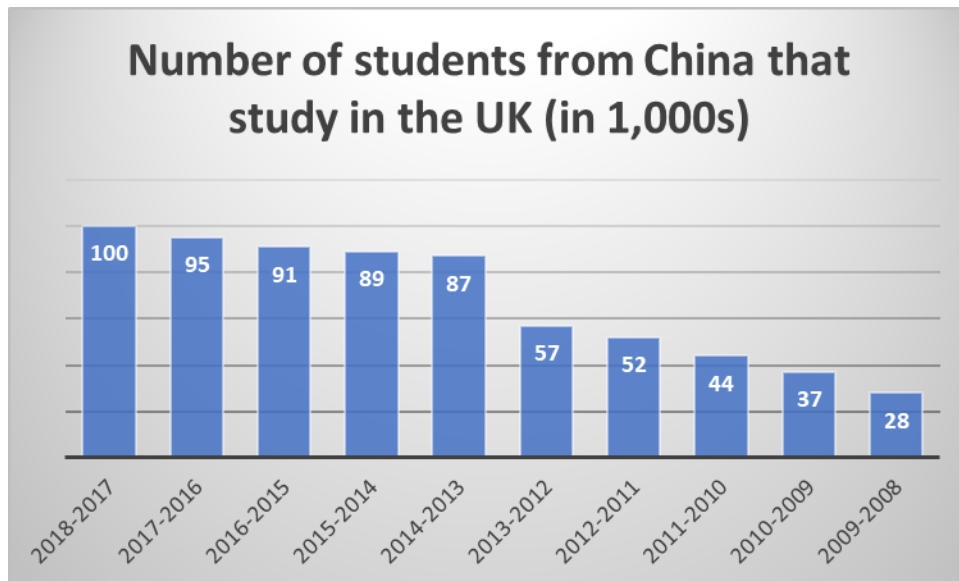


Figure 8. Number of students from China that study in the UK (in 1,000s). (Source: Statista, 2016 & UKCISA, 2019).

	Group	
	For year ended 31 December 2018 £m	For year ended 31 December 2017 Restated* £m
Revenue by source		
United Kingdom	1,845.9	1,818.8
North America and the Caribbean	707.5	629.9
Far East	97.5	90.4
Africa	71.3	65.3
Other	200.3	170.2
Intra-group revenue	(141.9)	(145.3)
	2,780.6	2,629.3
Revenue by destination		
North America	1,939.4	1,810.9
Caribbean	343.8	379.2
Far East	258.7	230.0
Africa	176.3	198.3
Other	204.3	156.2
Intra-group revenue	(141.9)	(145.3)
	2,780.6	2,629.3

Figure 9. Virgin Atlantic Revenue by Source & Destination. (Source: Virgin Atlantic, 2019).

UK-China: weekly seats by airline, Sep-2011 to Mar-2020

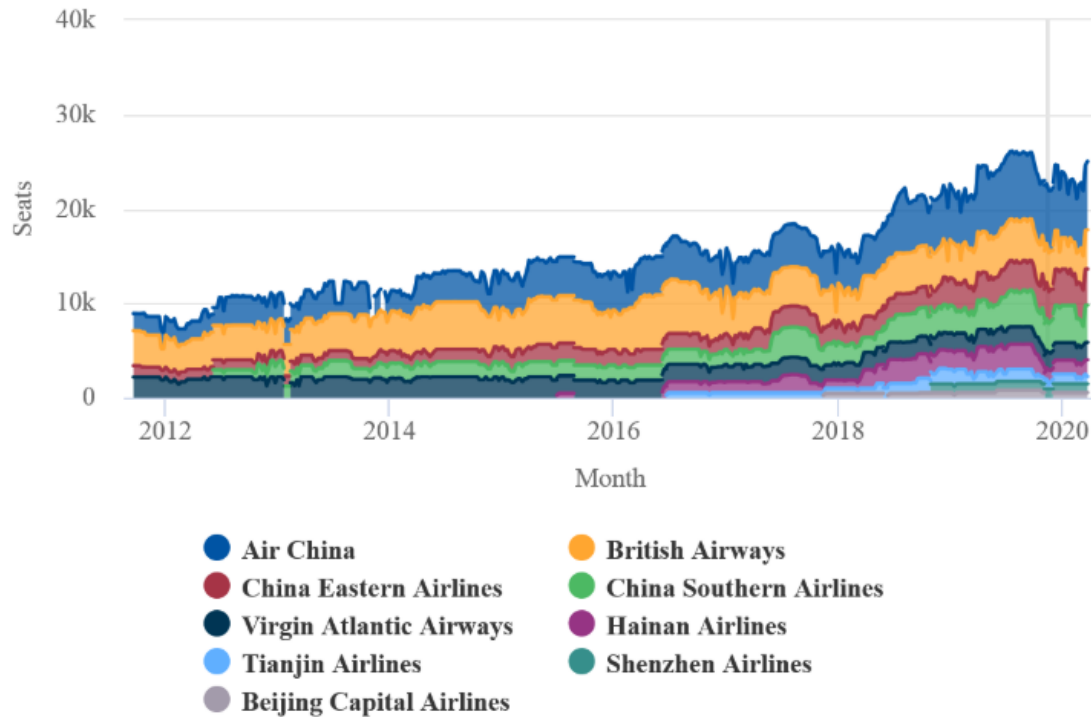


Figure 10. UK-China weekly seats by Airline, Sep 2011 to Mar 2020. (Source: CAPA, 2019).

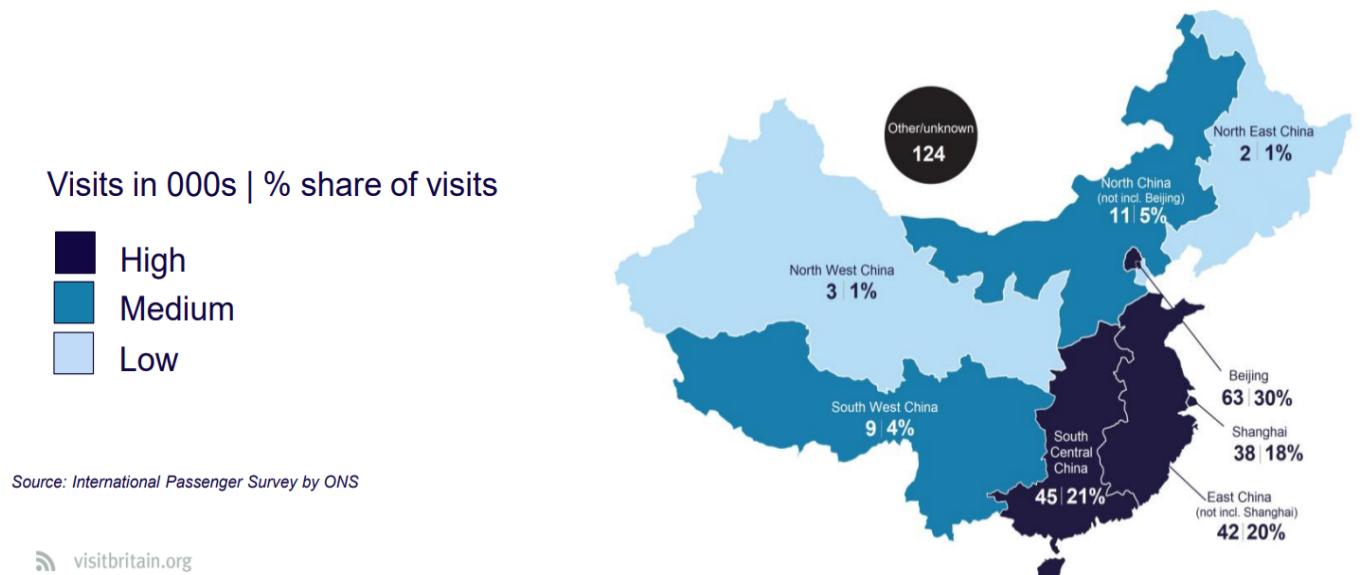


Figure 11. Region of origin – Chinese tourists to the UK in 2018. (Source: VisitBritain, 2019).

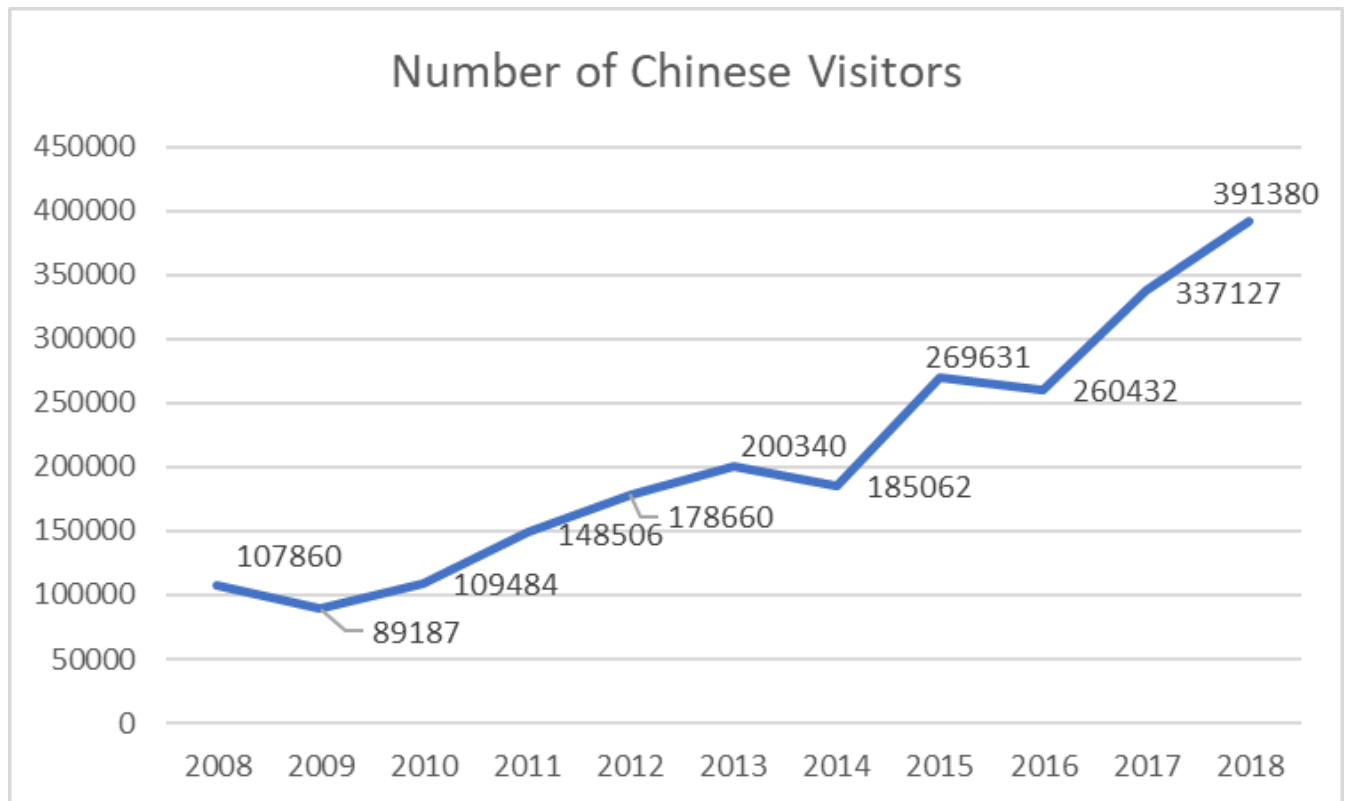


Figure 12. Number of Chinese Visitors to the UK. (Source: VisitBritain, 2019).



Figure 13. Direct Flights from China to the UK 2018 (Source: VisitBritain, 2019).

Rank	City	Total
1	London (5 airports)	1,262
2	Moscow (4 airports)	968
3	Paris (4 airports)	828
4	Istanbul (3 airports)	795
5	New York (3 airports)	792
6	Beijing (2 airports)	651
7	Chicago (3 airports)	622
8	Dallas/Fort Worth (2 airports)	587
9	Shanghai (2 airports)	582
10	Frankfurt (2 airports)	570
11	Dubai (4 airports)	567
12	Milan (3 airports)	557
13	Bangkok (2 airports)	524
14	Amsterdam (1 airport)	501
15	Brussels (2 airports)	481
16	Houston (2 airports)	457
17	Atlanta (2 airports)	450
18	Washington (2 airports)	435
19	Tokyo (2 airports)	432
20	Rome (2 airports)	418

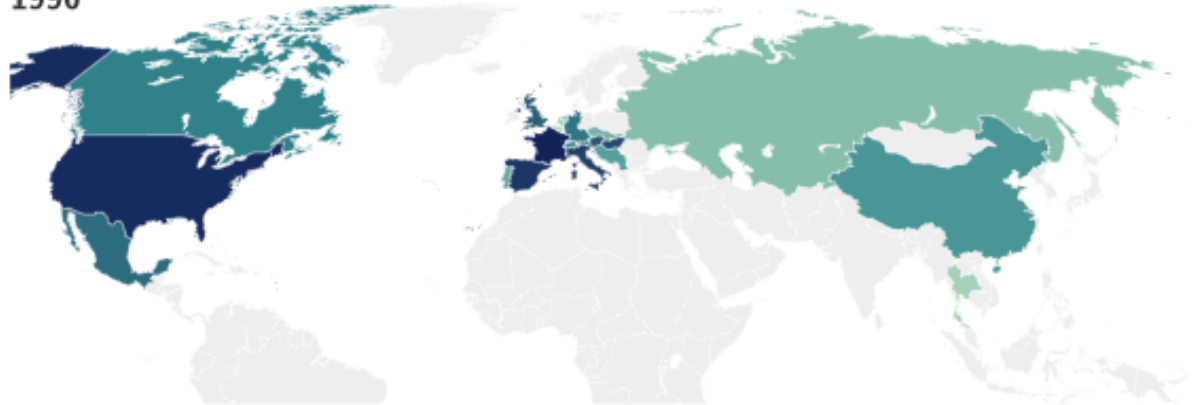
Figure 14. Top 20 Cities by the total number of routes. (By Nov 2019) (Source: CAPA, 2019).

Top 20 most visited destinations

Rank →

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
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1990



2017

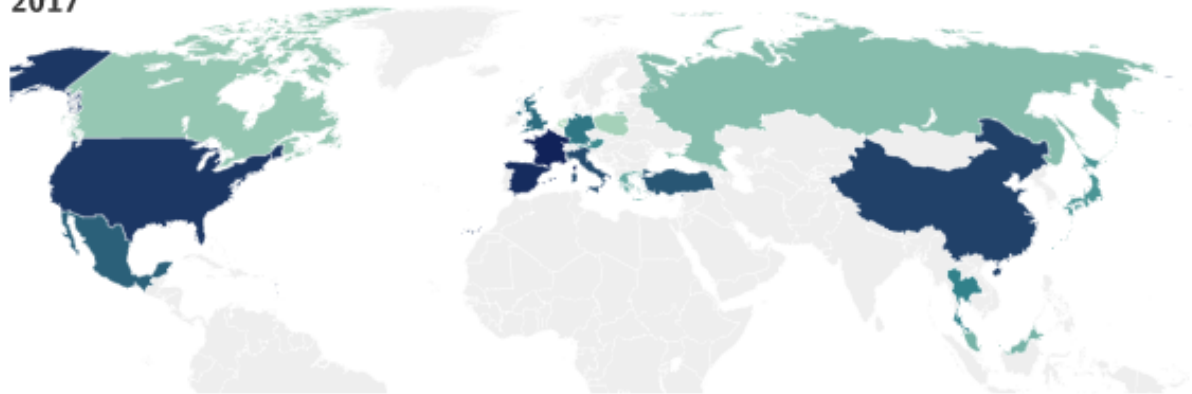


Figure 15. Changes of top 20 most visited destinations between 1990 and 2017. (Source: Smith, 2018).

United Kingdom and China



Figure 16. International Property Rights Index Comparison. (Source: Internationalpropertyrightsindex.org, 2019).

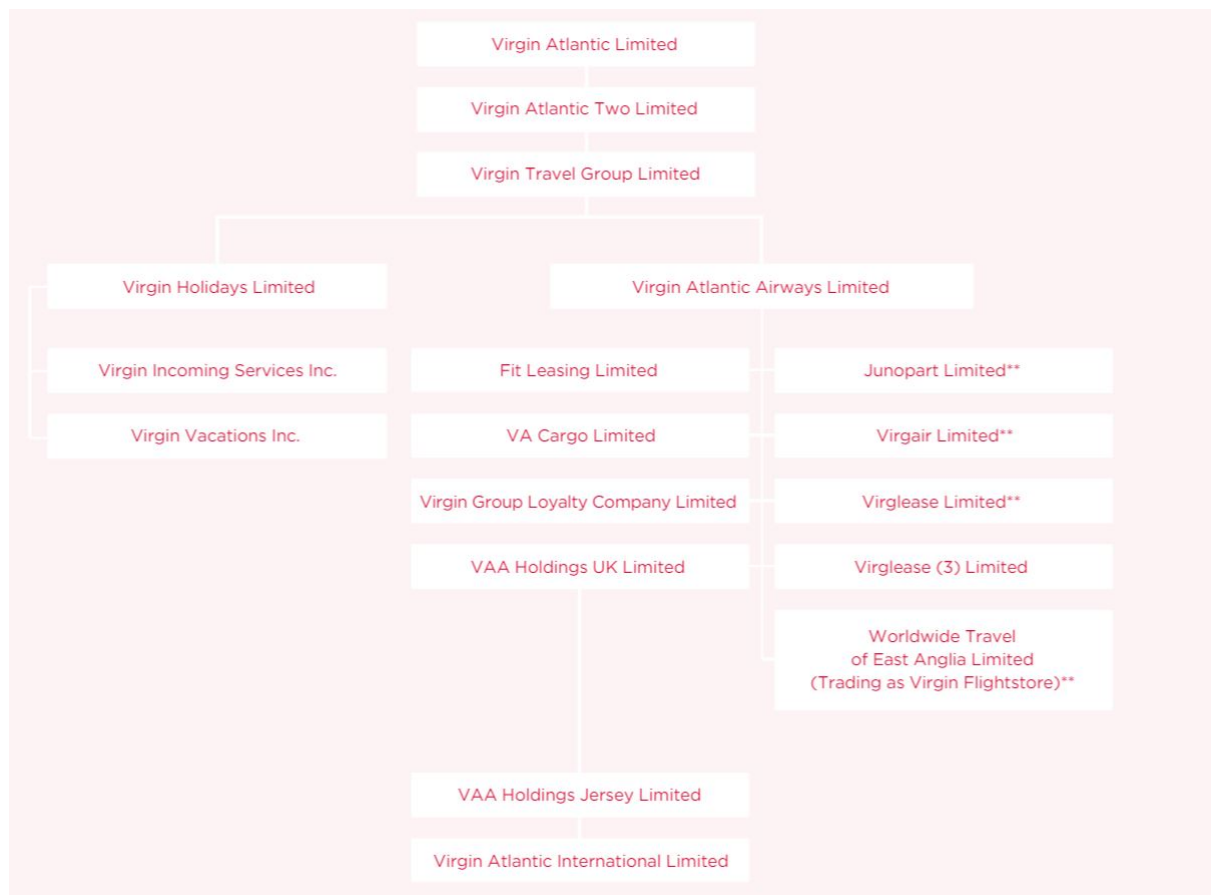


Figure 17. Virgin Atlantic Group Structure. (Source: Virgin Atlantic, 2019).

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