

The world's former favorite airline could learn a thing or two from its competitors.

LONDON—You have to feel sorry for [Willie Walsh](#). His reputation as a turnaround king, borne out of his track record at previous company Aer Lingus, is taking a pasting now that he's at the helm of **British Airways**. The airline that once boasted it was the "world's favorite" posted its biggest-ever annual loss in May, and is looking to cut thousands of jobs and freeze pay in an attempt to cut costs. Things are about to get a lot more miserly for passengers, too, as BA plans to end free meals on short-haul flights.

So what should Walsh be contemplating in his rescue plan for BA? He has bought himself some time, thanks to a [\\$500 million sale](#) of BA convertible bonds and an agreement on \$500 million worth of bank guarantees, but the rough business environment is not yet over. Premium passenger traffic in July was down 11% over the year, while nonpremium traffic--which BA is less exposed to--rose 3.5%.

According to Doug McVitie, chief consultant at Arran Aerospace, British Airways should swallow its pride and deliver what it has always promised: A big merger with Spain's Iberia, Australia's Qantas, American Airlines or all three. Although BA did make advances last year in [talks with Iberia](#), problems at home seem to have taken priority. McVitie said that only a big partnership would allow BA to save costs--not just tactically, by skimping on food or by charging extra for certain kinds of baggage, but strategically.

"It takes a while--mergers don't make money within a couple of years," said McVitie. "But they can cut your overall costs, from training right down to aircraft right down to routes. A merger allows you to focus on a larger pool of more profitable routes."

In the five years that have elapsed since Air France and Dutch KLM merged, British Airways' share price has fallen 23%, while shares of Air France-KLM have fallen by 16%.

BA could also learn from its low-cost rivals, Ryanair and Easyjet, according to Raphael Bejar of Paris-based airline consultancy Airsavings. He said that by using the Internet as their main distribution channel, low-cost airlines had essentially turned into "e-commerce" companies, offering all sorts of extra add-ons and uncorking extra revenue streams. BA, in contrast, was more dependent on traditional travel agents and corporate channels, making it less flexible and less able to adjust to market movements.

Bejar, however, doubted that "bigger" would be "better," and said that both BA and Iberia had their own problems to sort out before sealing a partnership. "When you get married to someone, you try to look presentable," he said.

Political pressure would have previously leaned toward saving and protecting so-called flagship carriers, but Arran Aerospace's McVitie said it was now in favor of consolidation. With "OpenSkies" leading the way toward more competition and merger opportunities across the Atlantic, BA is unlikely to want to face the tricky postrecession market alone. Sooner rather than later, British Airways will have to make tough decisions about simply staying British--or going global.

