

# Easyjet overview and strategy analysis



EasyJet Airline Company Limited known as low cost airline based in London-Luton airport. The airline operates frequent services for business and leisure passengers and serves more than 500 routes between 28 countries with over 182 aircrafts. It was founded by entrepreneur Greek Cypriot Stelios Haji-loannou, but it is now a plc listed on the London Stock Exchange and easy Group owns only a small minority stake. It is a constituent of the FTSE 250 Index. It is no-1 in air transport network and 4th largest airline in Europe. The company served 46 million passengers last year. Over 289 million people within one hour drive of an easyJet carrier. EasyJet is pioneer in the use of internet for travel. The Company has employed 6000 people including 1800 pilots and 3300 cabin crew throughout Europe. (easyJet. com)

Corporate Strategic History of the company:

Following are the major events and factors which contributed to the recent corporate history of the company.

Stelios earned his master degree from City University (London) then he went back to work for his father. His father gave him loan of \$50 million to start his own business to transport refined petroleum product. Stelios began thinking of aviation industry when Virgin Atlantic Greek Franchisee offered him to invest in a London-Athens route. Instead Stelios decided to set up his own business and his father lent him \$5 million to fund this venture.

## **1995:**

The Airline was established in 18 October 1995 and started his first flight from London Luton to Glasgow and Edinburgh with two leased Boeing 737-200 aircraft from GB airways.

At first EasyJet operated a paper airline . It contracted with British World Airlines to fly and look after his two leased aircrafts which it packed with 148 seats . Other early Planes and pilots are provided by Monarch airlines and Air Foyle. Easyjet used low rent Luton air port to keep its cost low. (<http://www.telegraph.co.uk>)

### **Early Marketing Strategy:**

It early marketing strategy was making flying possible as affordable as pair of jeans- £29 one way and The Company urged traveller to cut the middle man (travel agent). EskyJet base on London-Luton was using low rent Luton airport. Easy jet strategy was to use secondary airports to keep the cost low. In the beginning easyjet used phone line to accept the tickets order. (<http://www.easyJet.com>)

### **1996:**

EasyJet took delivery of its two wholly owned planes and started his first international flight from London Luton to Amsterdam. ([easyjet.com](http://www.easyjet.com))

### **1997:**

EasyJet decided to buy two new air craft that is why signed a \$500 million contract with Boeing in July 1997 and bought 12 brands new 737s . The Company was awarded its own Air Certificate which means EasyJet was recognised financially viable. The company set up its second base in Liverpool to provide low cost service from across the UK. (European management Journal; issue 1, 1999)

**1998:**

In April 1998, EasyJet sold its first seat online through its website easyjet.com. In March, the company bought 40% of Swiss Charter Operation, TEA Basel AG with the investment of 3 million Swiss francs. This airline was renamed 'easyjet Switzerland' and moved to Geneva where its first European base was opened. (<http://www.heraldscotland.com>)

**1999:**

Two "Airline" series were transmitted on ITV1 which helped in publicity. TEA changed its name and moved to Geneva and a 3rd base for the company was established. The company increased its stake to 49% in EasyJet Switzerland. In July, easyjet started its first service from Geneva to Nice, Amsterdam and Barcelona. Swissair used its political influence to stop easyjet from running its scheduled service between Geneva and Barcelona to maintain its position on this route. Easyjet resolved this issue by flying its first flight free then later on set up an inclusive tour company by the name "easyjet tours" which operate this service. So Swissair was unable to object to this charter service.

In October, EasyJet internet sales passed the one million figures. EasyJet was awarded "Best Low Cost Airline" by Readers of Traveller magazine. In November 1999, EasyJet was selected as a business super brand by the Superbrands Council.

**2000:**

In March, EasyJet increased its online discount to £2.50 for a single trip which was a higher level of discount than any other airline. The company sold 2 million seats online and by September the company's sales reached up to 85%

in single week internet sales. . The company placed an order with Boeing for 17 brand new 737-700s aircraft. In April, New online booking policy was introduced so that seats booked more than two months before the departure of the flight could be purchased online. EasyJet started a campaign to stop Barclays ripping off its customer by charging landing fees by 300%. The EasyJet was first low cost airline which launch flight arrivals information on its website.

In November , The Company shares were formally admitted in London Stock Exchange at an offer price of 310p. In Dec, EasyJet website launched in Spanish.

### **2001:**

The 5th TV series was started which attracted around 9 million people each episode. easyJet starts operating scheduled flights on its Geneva-Barcelona route as the ailing Swissair abandons its services on this route. In June, another TV series was announced. The company announces new London Gatwick Barcelona Route and at the end of the year EasyJet established it 5th base at Gatwick and become the second largest scheduled airline at the airport.

### **2002:**

EasyJet and Go Fly completed merger deal and easyJet become the number one low cost airline of Europe. In Nov, Stiliou resigned as chairman and Sir Colin Chandler took over the position. In Dec, the Company launch its unified sale channel after the merger of Go Fly Company.

**2003:**

In March, The combined air lines flown under the brand name of EayJet for the 1st time. In October, First Airbus A319 went into service from Geneva and in November, a new base was announced at Berlin and the company expanded its network dramatically with the addition of 11 new routes.

**2004:**

EasyJet announced a new base at Dortmund, increasing the existing network with eight routes. In December, Hotelopia and EasyJet combined together to launch exclusive accommodation products and services as EasyJethotels.

**2005:**

In April, The airline Base at berlin celebrates the arrival of 100th aircraft demonstrating EasyJet expansion. In May, the company introduced a new online booking systems which allowed passenger to book seats up to 40 people in one transaction . In May, the company welcome its 100 millionth passenger. In June, Gatwick become the biggest base with arrival of new airbus and it started offering flights to 29 destinations. The company introduced EasyJet lounges to business customers who offered complimentary beers, wines, snacks, comfortable seating and access to business facilities at very competitive rates. In August airline signed a \$1bn ten year contract airbus maintenance contract with SR Technics. In Sep, Swiss airline was given the contract for the handling of passengers and aircraft of Geneva Airport. In October, Milan air base was set up which was 16th air base in Europe and 1st in Italy. In November, Airline 10th anniversary was celebrated by the company. ( easyjet. com)

**2006:**

The EasyJet became the first low cost airline company to introduce internet check-in for its UK customers and 15 minute arrival time if you are travelling only with handbag. The company expanded massively to new markets outside the EU. In August, a new airbase at Madrid's Barajas airport was announced. In Nov, The company renewed travel insurance contract with Mondial Assistance to provide travel insurance to its passengers. The online booking systems was improved which give more choice to the customers regarding speedy boarding and seating arrangements.

2007: EasyJet and Microsoft launched the pioneering " EasyJet desk top gadget". The two companies teamed up and developed a range of desktop " gadgets" to ensure that travel would become seamless from desktop to touch down. The " EasyJet desk top gadget" enables customers to personalise flight information and booking services using the Microsoft Vista technology. In Oct, EasyJet purchased the entire share capital of GB Airways from Bland Group. (<http://www.forbes.com/2007/10/25>). In Nov, the company announced a record profit of £191million. (The Independent (London, England) Article date: November 21, 2007)

**2008:**

Easy jet started new routes from Bristol to Barcelona, Gatwick to Istanbul. Sir Stilos refused to sign the company accounts because of issue on board strategy. (<http://www.independent.co.uk>)

## **2009**

Sir Stilos opposed the Boards strategy which badly affects the reput of the company in the market. The EasyJet started flights to Milan, Mahon and Montpellier.( <http://www.holidayextras.co.uk>)

## **2010:**

In Mar, EasyJet selected Carolyn McCall, currently chief executive of the publisher of The Guardian and The Observer newspapers, as its new CEO. McCall, 48, has headed the Guardian Media Group since 2006. (<http://abcnews.go.com>)

EasyJet tested infrared ash detectors on planes. (<http://www.cbc.ca>)

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## **EasyJet Current Strategy**

EasyJet is a low cost airline. Now I would like to analyse company macro and complete environment.

## **EasyJet Vision:**

The company vision is to be the best low fares airline in the world. ([easyjet.com](http://easyjet.com))

## **EasyJet Mission:**

To provide its customers with safe, good value, point-to-point air services. To effect and to offer a consistent and reliable product and fares appealing to leisure and business markets on a range of European routes. To achieve this <https://assignbuster.com/easyjet-overview-and-strategy-analysis/>



company will develop its people and establish lasting relationships with our suppliers.

## **Macro Environment Analysis:**

### **1-Political Legal Factors**

Since the Air Miles Scheme is not thought as a taxable perk by the government so this advantage may allow Easy jet to compete on more parallel grounds with the likes of BA.

EU East enlargement may give access to viable, new markets. Taxes and landing charges which are imposed by national government. As EasyJet operates in so many countries across Europe so the companies is keep on trying with local governments to reduce the tax so that they can keep its fare low. As commented by chairman in the annual report (<http://2009annualreport.easyjet.com/overview/chairmans-statement.html>)

### **2-Economic Factors**

There is very much possibility of rising fuel costs, congestion and other environmental restrictions, as well as the prospect of higher security and insurance costs to reflect the risk of terrorism.

Recession may increase concern of travellers about the travel expenses.

Globalization should continue to boost traffic in the long term.

Single currency introduction in Europe may extend the market for Easy Jet.

### **3-Socio-Cultural Factors**

Public is generally quite friendly to the prospect of cheap flights although they feel begrudge where they see promotions saying flight is for £10 only to find that the actual cost is much higher for the particular time or day they wish to fly on.

### **4-Technological Factors**

Main issue will be the extent to which technological advancements -such as the use of the internet on distribution and cost synergies from industry consolidation-can offset upward pressures on prices and costs.

Easy Jet has to keep track of technological developments in the field of e-commerce and aircraft manufacture in order to gain a competitive advantage.

### **Porter Five Forces:**

Now I would like to give you the competitive industry environment where easyJet is operating. To evaluate this environment I would like to use the Porter's five forces Model.

Source: Andy Fleet notes

### **1-Rivalry among existing firms in the market:**

The completion among the rivals is quite fierce. The main rivals of EasyJet are Ryanair, BMI Baby, MyTravelLite and Buzz in low fare segment in the UK. But there are other potential rivals as well like Air Berlin (the big discount airline in Europe), Air Lingus( moving to discount model). Lufthansa and British Airways and KLM are traditional competitors but they target different

segments. Ryanair is the only one of these so far to have succeeded and shown a continuous yearly profit while maintaining its low strategy.

The difference between Easyjet and Ryanair is: Ryanair used secondary airports which are very far from the cities while Easyjet target leisure and business customers so they use secondary airports which are relative very close to the main cities.

## **2-Threat of new entrant:**

The airline industry is a capital intensive utilizing enormous range of expensive equipment and facilities. Stiles invested about \$5 million and later \$500 million on aircraft. To set up an airline company needs a huge investment or needs a good credit history to lease the aircraft.

Low fare offered by low cost airline like easyJet is a huge barrier for new entrant. So threat of new entrant is low.

## **3-Bargaining Power of Supplier:**

There three major suppliers in the airline industry, aircraft supplier, Petrol supplier and airport parking contractors

The power of aircraft supplier is quite high because they are few in numbers. Easyjet has increased their aircrafts numbers from 2 to 169. while 2 are in storage and 57 aircraft are in pipeline for delivery in next 5 years.

(<http://www.centreforaviation.com/news/2010/05/21/stelios-goes-easyjet-grows-what-is-uneasyjets-best-strategy-what-would-sun-tzu-do/page>)

In case of shortage of petrol then supplier have some power otherwise there are plenty of petrol suppliers are available in the market. The EasyJet is

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paying to the Barclays for parking its aircraft on Luton airport. So the parking contractor has a big power as well.

#### **4-Bargaining Power of buyer:**

Most of the EsyJet customers are attracted by the low fares as compared to other airline. The customer can travel by Ryanair but ryanair used those secondary airports which are usually far from the cities while easJet use secondary airports which are inside or very close to the cities which suit to the leisure and business customers. Secondly promotions of easyjet through websites and on air TV shows attract customers strongly. (easyjet. com)

#### **5-Threat of substitute:**

The substitute of travelling is rail and vehicles by which customers have more control over their journeys and they don't have to go to the airport. But again these options are costly and time consuming than air travel so there is low threat to EasyJet by rail and vehicles.

#### **SWOT Analysis:**

Now the SWOT analysis will also help us to evaluate the company internal and external environment. If any organization doesn't conduct SWOT analysis then it means the organisation is working in darkness, where nothing is sure. Where there is no hope for success and great chances of damages and the failure of a product or service. (Hashir, K. 2004)

Organizations use SWOT analysis for their product and/or service to determine internal and external forcing affecting them. (John, W. 2005)

## **External**

### **Internal**

### **Strengths**

**What are we good at relative to competitors?**

### **Opportunities**

**What changes are creating new options for us?**

### **Weaknesses**

**What are we bad at relative to competitors?**

### **Threats**

**What emerging dangers must we avoid or counter?**

### **Good Points**

### **Danger Points**

Source: Hooley, et al., (2004)

### **Strengths:**

Strong reputation and brand awareness.

Low cost and low fares. This has been done by the company by number of ways, online booking to reduce distribution cost, travel without paper tickets (just send emails), and no free lunch, efficient use of airports and aircrafts, paperless operations.

EasyJet is no1 in air travel network in Europe and 4th largest airline in Europe.( EasyJet. com)

Consistent and reliable. Evidence shows that 94% flights come arrived within 15minutes of expected arrival time.

Lowest average age of the fleet which result in increased safety and higher fuel efficiency and low carbon emission.( Average age if plane is 3. 4 years)

Low overheads due to flat organisational structure.

### **Weakness:**

1-Easyjet has limited departure airports and most of them are away from the cities. As customer having to travel to the secondary airports which still cost them money.

2- The people who are not internet friendly and they don't know how to use internet. So it's a big hurdle for them to book their tickets online.

3- There is only one seating plan. There is no special separate class for business customers so company lose some of their business customers.

4- To maintain the cost leadership strategy can be difficult in the dynamic market

5- The airline does not own the brand name (owned by Sir Stilios). So the company does not have control over other brands products and services using same brand name. The loss of usage in future could adversely its own market performance.

Future changes in airport access and landing charges by the contractors can affect low cost airline badly.

Highly sensitive to Taxes or charges imposed by government and airport authorities because of lower operating margins.

The company have no policy to build up brand loyalty.

### **Threats:**

Increasing completion and saturation in the industry could be big threat for easyJet.

Availability and prices of fuel imposed big risk to the company.

Catastrophic loss can result in lesser air travel and loss of infrastructural support as it happened in volcanic Ash recently.( [http://www. guardian. co. uk](http://www.guardian.co.uk))

Implementation of environmental taxes could increase cost.

Currency fluctuation especially in dollar can affect the cost of purchasing, financing, maintaining and costs of aircrafts.

### **Opportunities:**

1-At the moment company is operating mainly in UK and Europe but there is big market out there in Asia and Africa especially because of increasing volume of immigrants in UK and Europe.

More vertical and horizontal expansion to avoid any threat from the service providers.

The EasyJet academy can be source of ancillary income.

## **Porter generic Strategy:**

### **Porter Generic strategies.**

In 1986, Michael porter argues that;

Should the strategy be one of differentiation or cost leadership?

Should the scope be wide or narrow?

He argues that organisations can run the risk of trying to satisfy all and end up being ‘ stuck in the middle’. The company stuck in the middle means, the company will give poor performance.

easyJet is perusing cost leadership strategy in the aviation industry. As this is company’s mission as well to be the lowest fare airline in the world. EasyJet is achieving its mission by eliminating the unnecessary costs and “ frills”.

This is done in a number of ways:

Use of internet to reduce distribution cost: The Company sold its first seat on internet in April 1998. Now 95% of the company’s sale is through its website, making Easyjet one of the Europe biggest retailer.

Maximise the utilisation of the substantial assets: maximizing the using of aircraft significantly reduces the unit cost. Average aircraft operation time is 11. 6 hr per day and average turn time is c. 30 minutes.

Ticketless Travel: when passenger booked their tickets online they received boeing reference number and rest of the information by email. It saves the company’s money for issuing, distributing, processing and reconciling of paper tickets.



No free lunch: The Company does not provide any food, snacks or drinks.

The Company has won the award in catering so if customer wants food then he has to pay for it.

Paperless operation: Since its launch easyJet has simplified its working practices by embracing the concept of the paperless office. The management and administration of the company is undertaken entirely on IT systems which can be accessed through secure servers from anywhere in the world enabling huge flexibility in the running of the airline.

### **The Company Performance is measured by 4KPIs**

Financial KPI: According to Financial report of 31 March 2010, total revenue in 2010 was £1170 million which is 13.3% increased (2009; £1032 million).

#### **Strategic KPIs:**

1-CRV Index In all areas of the company from cabin crew to engineers, safety is their 1st priority. According to Composite risk value (CRV) index was 0.625 in FY 2009.

2-Build Europe's No 1 air transport network: The Company is focusing to improve its routes, slots and bases to build a leading presence across Europe.

3-Develop a winning customer proposition. The company will continue to refine its winning proposition to a wide range of business and leisure customers. KPIs value was 79.5% in FY2009.

Deliver low cost and maximize margins: In FY2009 revenue per seat was £ 50.47, Cost ex fuel per seat £43.37, profit before tax per seat £0.83.

## Part 3

### Future Strategies of EasyJet

1-fleet expansion Strategy: According to the Air Flight Intelligence news, The Company Board of Directors agreed to maintain the company growth rate at 7.5% per year. Easyjet was operating 189 aircrafts at the end of March 2010 and its fleet plan will take this total to 208 by September 2012. Easyjet has decided to take 57 more airbus aircraft over the next 4 years: another 12 in this year, 25 in 2011, 18 in 2012 and two in 2013. The easyjet has announced that by keeping the growth at 7.5% will enable the company to increase its shares of the European short haul market from current 7% to around 10%.

EasyJet is growing dramatically since its existence which is good but there is a risk that the Company may lose control over its operations because of high growth rate. I personally offer my opinion and will oppose this decision.

This decision also opposed by Sir stilios. He believed that company is embarking on “relentless” growth at the expense of profit margins. He said “A mere look at the share price graph over the last 10 years, practically a ‘flat line’, and zero dividends are proof of that. How can you buy 200 aircraft with shareholders’ money and create no wealth for shareholders? Sir Stileos strongly opposed the aircrafts expansion and later on he resigned from his position on the airlines board. (<http://www.flightglobal.com/articles/2010/05/14>)

## **2-Greener Aircraft Strategy:**

The Company should invest on greener aircraft which emit low carbon and will be eco friendly. Boeing recently have announced about the 787 Dreamliner. The 330 seat 787 is considerably lighter and stronger than traditional aircraft and is made from composite materials which are in essence a high-tech plastic rather than metal. Many of the parts of the plane are made in Britain, such as the massive Roll-Royce engines, while many other parts are also produced in other parts of the world. It is more eco friendly and emit 20% less CO2 than recent planes. The first Dreamliner will be in commercial use end of this year. (<http://www.telegraph.co.uk>)

## **3-Flights to Asia and Africa:**

EasyJet should start its service to Asia and Africa because its big market and it will give opportunity to expand worldwide. Especially EasyJet can attract millions of customers from these countries by offering low fares because individuals from Asia and Africa have less disposable income so they are more interested in saving money. In future following are the key factors which should airline take into account and start its service to Asia and Africa.

As Europe aviation industry is becoming saturated day by day. Less disposable income in UK because of recession can affect the EasyJet profit badly.

Innovation of video conferencing will facilitate the business customers and they may less likely to fly for business meetings.

Increased immigrants number from Asia and Africa. So millions of people will be attracted to low fares.

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#### **4-Customer retention Scheme:**

EasyJet does not have any customer retention scheme at the moment. If customer find low price than easyJet then they easily switch to other airline. In prevailing circumstances we have seen so many companies have started loyalty card schemes to retain its customers like Tesco, M&S, Body Shop etc. If EasyJet build its customer loyalty then there will be enough people to fill its plane in future and the company does not have to struggle. Loyalty scheme will save company's money on promotion as well.

#### **5-Horizontal and Vertical Integration Strategy:**

Easyjet possibly can chase the horizontal and vertical strategy to save from the future threats. For instance parking on airports costs a lot of money so the company potentially could sign the long term contracts with Barclays and own the parking space for long period of time to avoid the fluctuation in future prices. The company could start the diversification like virgin has done. Diversification will reduce the risk and will offer more opportunities to the company. They can start railway business, insurance, mobile phone network provider business. I mean there are lots of options available for the company to flourish in other areas of business. As offering low fare segment of airline industry is becoming saturated day by day so the company should consider the option of horizontal or vertical integration to avoid any future risks.

Recently the Company lost about £65 millions because of volcanic ash problem. If Company would have invested in other business then there was possibility that company would incur its losses from other business. Suppose if The Company would have train business from London to France. Then the

Company would earn more money than they lost because of volcanic ash. Big Companies are perusing this strategy now a days and easyJet should carefully consider these option and should take such steps which reduce the risk of decrease in shareholders wealth.

### **6-Corporate Social responsibilities Strategy:**

CSR will be key factor for an organization success and failure in near future. This is the main reason we are observing that almost all the big companies are mentioning CSR in their annual reports and the company charter and agenda's. Due increased awareness among customers about the environment have triggered companies to think about CSR. Now a day's companies have slogan " we pay back to local communities" then " we care about our environment" etc.

I would suggest Easyjet will strongly take an account on its CSR strategy and should show to the local communities wherever they are operating that they care about them and they care about the environment. EasyJet , no doubt, have their CSR strategy but I would suggest make it more clear and should done more publicity to win the hearts of local communities. (<http://www.areco.org/pollute.htm>)

### **Recommendations:**

According to my point of view EasyJet board should operate with the existing aircraft for the next 3 to 4 years because European market is becoming more saturated day by day. They should announce dividend first to keep the shareholder happy rather than concentrating on the fleet expansion. Slow

growth will give them more time to have firm control over organisational operations throughout the Europe and UK.

I would strongly recommend to EasyJet that they should start flights to Asia and Africa to avoid possible losses because of saturation in the aviation industry in future. The Company will attract millions of customers because of its strong brand and low fare policy. It will avoid the Company from future catastrophic happenings. For instance, if the company is suffering from losses in UK because of volcanic ash then on the other side company will be making money because of flights running from Germany to Asia or Africa.

My Second recommendation is that The Company should go for diversification rather than investing all of its money into one business. Diversification will open up new opportunities for the company. At the moment Sir Stillos is working on this strategy who owns the EasyJet brands but easyJet is mainly investing its money back into airlines and they have signed contracts with europecar and hotels and travel insurance companies but still all those businesses depend upon aviation industry. If the airline industry gets affected by bad weather or ice and no plane is flying so ultimately it will affect all other business like rent a car (Europe car), hotel, travel insurance. So easyjet should strongly consider the option of diversification like buying a railway, opening a soft drink business etc.

If EasyJet carefully consider these options and implement them then there is no doubt the Company will be successful and profitable in future.