

Risk management group of easyjet tourism essay



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The methodology implemented to identify the risks that face EasyJet was constructed through the use of a SWOT Analysis. Taking into consideration of all the conceivable risks would be an inefficient process, therefore only a few risks of significant nature have been recognised which may affect EasyJet in the foreseeable future.

The launch of a new route from Manchester to Palma presents both opportunities and hazards. Conclusive data provided by CAA presents an outcome not anticipated – a decline in passenger numbers at Manchester Airport, and a significant drop in the number of airlines flying to this destination.

A recent unfolding of a crisis due to poor management at head office, indicates a growing concern in terms of crew shortages. This will have longer term repercussions if the issue is not resolved. The problem might suffice the migration of customer to rival airlines, due to the lack of customer services.

A high risk factor for EasyJet lies with the unpredictable and worsening climate of the UK, possibly disrupting air-traffic particularly during the winter season. Given the complete closure of UK airspace during the volcanic eruption, EasyJet's total size of the exposure, as a result of disruption is £5 million. With no current Government plans to invest in new equipment to keep the transport infrastructure open, EasyJet face liability for the costs, given that no insurance policy is available for natural disasters and the Government reluctant to provide some levels of compensation.

Contents

Introduction)‘

This report has been commissioned for the EasyJet risk management group to identify and critically analyse risks that may face the organisation in the future. It is of significant importance that identified risks may present opportunities for growth, in addition to threats.

As per this report, only the most significant risks will be identified, through the use of appropriate models. A detailed analysis shall be provided to aid the management group to associate solutions to the problems.

Implementing a formal procedure of risk management ensures the constant assessment of risks that EasyJet is exposed to. Where risks produce outcomes that adversely affect EasyJet, it is crucial that these risks are either eliminated (if possible) or minimised. On the other hand, risks which produce favourable outcomes should be exploited with the intention of adding value to the company and to maintain growth levels; pursuing a, “ truly European operation that’s turning Europe orange” (EasyJet, 2010).

Modern organisations have recognised the need to adapt quickly to changing business environments and the pace in which change occurs. The purpose of enterprise governance therefore, is to strike a balance between conformance (controlling hazards and threats) and performance (maximising returns and opportunities). A key element of enterprise governance is to provide EasyJet the mechanisms to put into practice corporate decisions that will ensure the success of the company, (IFAC, 2004).

Risk Identification)‘

The identification of the appropriate risks that face EasyJet is a continual process. It would therefore be useful to draw up a SWOT analysis (see appendix 1 for definition) as a device which can be used to identify risks. It would be an inefficient and time-consuming process to identify all the conceivable risks facing EasyJet, as a result only the major risks will be analysed.

SWOT Analysis

Strengths:

)’€ A leading provider of air-travel for leisure and business customers, connecting convenient airports and destinations across Europe.

)’€ Easily identifiable through a distinctive and leading brand name.

Weaknesses:

)’€ Market for domestic travel is highly competitive, with a host of many low-budget airlines operating on similar routes. Competitors include Monarch Airlines, BmiBaby, Ryanair and many other smaller airlines.

Opportunities:

)’€ The possibility of introducing new routes connecting travellers to a wider scope of destinations.

Threats:

)'€ The possible occurrence of natural disasters and/or severe weather changes, which may lead to severe delays and cancelations.

)'€ A slowdown in economic growth or a period of recession which may lead to a sudden drop in demand for travel.

To ensure the consideration of all aspects of risk, the process of identification should be carried out systematically. Therefore two elements of risk identification will be addressed;

)'€ Earnings Growth – These risks are addressed with respect to their effect on whether EasyJet is able to achieve its earnings growth targets. The basis for this approach is to analysis speculative risks, in particular business risks.

)'€ Risk Insurance Management – This involves the development of contingency plans, and possibly insurance cover for downside risks affecting EasyJet.

(Coyle, 2010: 29-30)

Successful risk management establishes a process whereby, to classify risks into certain sub-categories, in order to identify particular risks which may be of concern to EasyJet. Business and non-business risks are the broad categories which shall be used; both further sub-divided into specific categories to identify specific risks.

Business Risks)‘

Product Risk – Launch of new route

From the nature of EasyJet’s operations it is inevitable to witness a change in demand for travel, especially during this current tough economic climate.

Product risk associates risks which may cause demand for travelling with EasyJet to increase or decline.

EasyJet plans to launch a new route from Manchester Airport to Palma, Majorca with its inaugural flight commencing on 12th March 2011. (EasyJet, 2010). The planned launch presents both opportunities and threats in the form of speculative risk. A clear advantage of this particular route is that it provides travellers greater access and choice in terms of departure timing, pricing and location; allowing travellers to meet their particular needs, whether for leisure or business use. The new launch promotes growth within the company through increased ticket sales and hence overall profitability. It also allows the possible expansion of EasyJet’s fleet and in the long term a strong performance on the stock market.

Analysing the situation from a different perspective, it is clear that there are few obstacles that face EasyJet. The planned route faces significant competitive pressures from incumbent airlines currently operating on this route. It has been recognised that the biggest threat challenging EasyJet arise from flights in operation by Monarch Airlines and BmiBaby. Rivalry from interdependent airlines may force prices to fall, benefiting travellers at the expense of damaged profit margins. Furthermore, services provided by incumbents may significantly improve, allowing rivals to monopolise their operations – strengthening entry barriers.

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Further analysis of data provided by the Civil Aviation Authority concerning passenger usage of Manchester Airport (see appendix 2); indicate a decline in terminal passengers. The data illustrates that passenger numbers from years 2005 to 2010 has fallen by approximately 20. 1% from 22, 061, 000 to 17, 621, 000. Suggestive arguments may indicate poor quality of services provided by MAG plc. – Manchester Airport’s operator.

Evidence reported by the Civil Aviation Authority (see appendix 3), provides some justification as to why passenger numbers are falling. The data recorded indicates that on average across the entire period, flights were delayed by 30 – 60 minutes. This may be of some inconvenience if time is a significant factor for passengers travelling, specifically for those on business use. Taking the analysis further, it is evident that in response to falling passenger numbers, the number of scheduled flights to Palma is also in decline, (see appendix 3). The period 2005 to 2010 saw a fall from 526 to 355 flights to this destination. The data might signify this destination to be non-profitable, or the simple case of survival of the fittest; incumbent airlines driving away new entrants away from this particular route. Such factors may present a high threat and risk for EasyJet.

Operational Risk – Crewing Issues

Operational efficiency is a key aspect to determining the level of profitability for an organisation, especially for EasyJet, stricken by cost-cutting measures to maintain margins. Staff; whether they are crew on-board airlines or crew on the ground at airport terminals, are the key contributors to the successful operation of EasyJet. It has been a tough climate for the airline industry, in terms of operating in a period of economic decline – which has led to some

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redundancies. Yet it is of utmost importance to preserve staff levels in order to maintain certain levels of services.

Insight into the operations of EasyJet, indicates that former CEO, Sir Stelios Haji-Ioannou (currently the largest shareholder), challenged the group's right to its name over concern of punctuality, (Jacobs, 2010). It is understood that, due to cost-cutting proposals, " EasyJet has more flights scheduled than crews available", (Turner, 2010). With staff shortages becoming an imminent problem; easyJet risk facing further disruptions across some parts of their network.

Evidence prescribed through the views of crew members; indicate that the issue lies predominantly with poor management. Conclusive evidence of the operating difficulty EasyJet are currently faced with is the direct result of a lack of processes from head office. In the wake of such problems; " Many EasyJet Flight crew are already applying to rival airlines..., ... to escape the problem situation with EasyJet", (Turner, 2010). An escalating problem with crews will soon be a key contributor to the lack of motivation and passion for crews towards their respected duties. In effect this may affect levels of customer services; with rival airlines gaining extra custom at the expense of EasyJet's mistake. In response, this is in direct violation as per one of the values of the company;

)'€ Passionate: We're ambitious to be the best we can be, (EasyJet, 2010).

It is therefore critical to acknowledge the importance of proper management processes for the efficient running of the organisation. Whilst there may be opportunities for growth within the organisation, it is ever more important to <https://assignbuster.com/risk-management-group-of-easyjet-tourism-essay/>

manage internal processes efficiently, otherwise risk facing the migration of customers to rival airlines.

Non-business Risks)‘

Disaster Risk – Adverse weather may cause disruptions to air traffic

It is predictable to come across negative events that are beyond the control of EasyJet, severely disrupting operations. This downside risk promotes many threats, in particular to EasyJet.

Forecasts published by the Met Office, indicate severe weather warnings in the coming weeks of the month of December, with a high probability of snowfall in areas of the Midlands, South East, and Southern England. It is predicted that, “ Britain is likely to suffer from more transport delays and icy conditions as forecasters predict the cold snap will continue”, (Alford, 2010).

The possibility of grounding aircraft in the face of heavy snowfall poses a significant risk to EasyJet. Examination of last year’s wintery chaos and the financial losses that were sustained by EasyJet and other airlines provides insightful knowledge to draw up contingency plans for the near future to minimise these losses. Airlines were faced with many challenges in December of 2009; in particular, “ Most of the major UK airports reported delays and cancellations, with EasyJet grounding 7, 314 of its flights”, (Siddique, 2009).

The recent volcanic eruption in Iceland in April 2010 provided some answers to the likely cost of grounding aircraft. EasyJet reported £5 million in lost profits each day its aircraft were grounded, resulting in a 5% fall in its share

price. Further disruption caused by heavy snowfall in December 2009 and January 2010, “wiped another £25 million off profits”, (Williams, 2010). The lack of investment by airport authorities and the Government present further risks in the foreseeable future for EasyJet and its passengers. Inappropriate and shortages of snow clearing equipment imply further disruptions if airport authorities are disinclined to invest.

A critical study of this situation indicates, “No insurance cover available to protect against this type of event”, (Williams, 2010). Future disruptions will cause EasyJet to seek financial support from the Government if liable for compensation claims, or must ensure that liquid funds are available if the cost lies completely with EasyJet. As per the organisation’s value, it has been identified that there will be no compromises in terms of safety. Given this view, it is advisable that EasyJet take on a risk-averse approach for such events.

It is therefore crucial to apply a methodology for assessing the implications of operating aircraft in the face of adverse weather conditions. Application of ‘Scenario Planning’ ensures that decision-makers are aware of the challenges facing EasyJet and take into consideration of possible future eventualities. Scenario planning allows EasyJet to “think through the consequences of unexpected developments in some detail. A more detailed understanding of the unexpected, means that decisions can be taken with a more informed judgement”, (Coyle, 2005: 68).

Risk Map)‘

In view of identifying the appropriate risks, a risk map has been drawn up as a method of risk measurement, to provide an initial judgement to aid management distinguish the more significant risks.

Severity/Impact

Low

Medium

Frequency/Probability

Low

Medium

)‘€ Crewing Issues

High

)‘€ Launch of new route

Source: (Coyle, 2005)

Following on from the identification of risks, a rational has been proposed for the appropriate positioning of risks in the risk map;

)‘€ Adverse weather – High Impact, Low frequency. The UK is not prone to catastrophic natural disasters due to its geographic location; therefore there is a low probability of such events occurring. However due to shifting climate patterns in the face of increasing CO2 levels, and the presence of global warming, it is evident that winter months are becoming ever more calamitous. Current indicators displaying the situation of the UK economy, with continuing proposals of further austerity packages from the coalition

Government, promote further risks, in the face of delayed or postponed investments in improving the current transport infrastructure to be able to cope with severe weather conditions.

)(€ Crewing Issues – Medium impact, Medium probability. There will always come a time where firms face an imminent shortage of staff, whether on a particular day, or a longer period. Such problems will have to be dealt with, given the impact it will have on operations in the longer-term, in terms of efficiency.

)(€ Launch of a new route – Low impact, High frequency. EasyJet will always need to introduce new routes to further destinations in order to allow growth within the company. Particular routes which may not provide the anticipated profits, will impact the overall profitability of the company, however to a lesser extent. The EasyJet Group with a large diversified portfolio of subsidiaries are able to mitigate certain losses against certain profitable subsidiaries.

Conclusion)‘

The environment in which EasyJet operate in, is constantly faced with an increasing pace in which change occurs. The dynamic properties of risk imply that the process of risk management needs a continual application. The risk management group of EasyJet must accept the constant need to re-evaluate the significance of existing risks, and be prepared to look-out for new risks that may provide opportunities as well as threats in the near future.

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Appendices)'

Appendix 1

Defining SWOT Analysis

A SWOT analysis is a particularly useful model used to evaluate strengths, weaknesses, opportunities and threats that face EasyJet.

" Strengths and weaknesses have an internal focus and are typically evaluated by operations people. Threats and opportunities have an external

focus and are typically evaluated by marketing people. SWOT is often regarded as the link between organisational strategy and operation strategy.” (Stevenson, 2005: 43)

Appendix 2

2010

17621

8. 3

2009

18937

8. 6

2008

21317

9. 0

2007

21886

9. 1

2006

22047

9. 4

2005

22061

9. 7

Figure : Passenger numbers at Manchester Airport, source: (CAA, 2010)

2010

355

53

2009

449

23

2008

542

26

2007

550

26

2006

629

23

2005

526

43