

Company overview of easyjet



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A successful example of a European no frills airline is easyJet. Stelios Haji-loannou (Greek) founded the company in 1995. It is based on the low-cost, no-frills model of the US carrier Southwest. The concept of easyJet is based on the belief that demands for short-haul air transport is price elastic. That means, if prices for flights are being reduced, more people will fly.

Traditionally airline concepts are based on the assumption that airline traffic grows in line with the economy and that cutting prices will only lead to a decrease in revenues. With the introduction of the 'no-nonsense' concept to the European market, after its deregulation in 1992, easyJet has proven this theory wrong and goes from strength to strength by actually increasing the size of the market and more recently by taking away passengers from the majors (see [www. easyjet. com](http://www.easyjet.com) for passenger figures, financial data and employee statistics). Today, it offers 125 routes from 39 European Airports (see www. easyjet. com for route launch dates), with Luton, Liverpool, Geneva, Amsterdam as base airports and is operating 72 aircrafts (November 2003).

November 1995: easyJet starts flights from Luton to Glasgow and Edinburgh with to leased Boeing 737-300 with a capacity of 148 seats at a price of £29 one way. Seats are being sold over telephone reservation system only. In 1996 easyJet takes delivery of its first wholly owned aircraft and goes international with first services to Amsterdam from Luton. One year later easyJet launches its website, [easyjet. com](http://www.easyjet.com) which will from 1998 onwards form an integral part of the business concept (and which provides for some 90% of the bookings today). In August 2002 easyJet expands its fleet and routes by acquiring British Airways' low-cost subsidiary Go. In October 2002

the airline signs a deal to purchase 120 Airbus, which will facilitate the airline's ongoing growth strategy. Up until now, one of the cornerstones of the easyJet's low-cost model has been to operate a single aircraft type fleet – which so far has been the Boeing 737 series – because uniformity means efficiencies in training, maintenance and operating costs. However, easyJet's new deal with Airbus is being viewed by the company as “stunning” as the additional costs, which incur through the new type of aircraft are “far outweighed by the financial benefits of this deal”.

easyJet argues that both Boeing and Airbus aircraft have broadly similar characteristics but that a wider aisle on A319 will make it quicker to embark and disembark, that it has an extra seat on board (150 vs. 149) and that overall the A319 will lower costs by about

10% compared to the current mix of aircraft, which will contribute to lower ticket fares.

(See appendix 1 for Stelios Haji-Iannou's other easyGroup enterprises).

2. The Mission Statement of easyJet

To provide our 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 will develop our people and establish lasting relationship (see www.easyjet.com)

The basis of an organisation's mission statement should answer the question “What business is the company in?” easyJet is doing this by stating that it

provides ‘ point-to-point air services’ to its customers. That clearly underlines that easyJet is not in the people or food business, neither in the service business as such, but in the mass-transportation business, and as such its model is based on cost efficiency of the mass-transportation business. Moreover, it reflects several decisions about what kind of air service easyJet wants to provide. Evidently, its focus is on ‘ European routes’, targeting business and leisure travellers alike. Furthermore, it aims to offer ‘ safe, good value’ transportation. easyJet’s mission statement also gives information on the ‘ How to get there?’ by putting emphasis on its ‘ people’ and ‘ suppliers’. What is missing from the statement is the importance of the customer’s point of view, which could be expressed by saying, for instance, ‘ we want to be recognised as....’. Also, as the mission statement is the bedrock for the marketing plan it should be more quantifiable, as to how much market share easyJet aims to gain in the future, for example.

3. Competitive Analysis

In order to analyse the airline industry in detail, it is useful to apply Porters five competitive forces.

The threat of substitutes

Minimal threat from other modes of transport like train and car on domestic routes. Usually the time and cost advantage of the low-cost carriers far outweigh the increased comfort and flexibility of trains or cars (e. g. on the route Luton/London to Glasgow a train takes around 6 hours and costs around £80 while a easyJet plane takes just one hour and costs around £29).

On international routes distances are usually too great for car or train to be an alternative to air travel, except maybe from London to Paris, which can be reached by Euro Star.

The threat of new entrants

High capital requirements negate threat to some extent. easyJet was started with a loan of £5 million, with 2 leased aircraft, but required a £50million investment raised by debt and equity in year two to speed expansion and buy 4 new planes.

The UK low-cost market is quite mature in comparison to the rest of Europe and easyJet, as the biggest operator has quite a comfortable position.

However, expansion into new European markets might prove more difficult as established; cash strong holiday firms like TUI are setting up their own low-cost operations (see information about Hapag Lloyd Express, [www. hlx. com](http://www.hlx.com))

Lack of take-off and landing slots makes it difficult for new carriers to find suitable airports.

Loss leader is required in order to join the low cost market.

The power of suppliers

The price of aviation fuel is directly related to the cost of oil, as an individual company easyJet does not have the power to alter this.

Airplane manufacturers are concentrated in the industry, with Boeing and Airbus providing the majority of commercial planes and with easyJet operating one type of aircraft until recently. easyJet's deal with airbus

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however shows that favourable agreements can still be reached. The dependence on spare parts from one manufacturer could pose a risk.

The more easyJet expands the more power it will possess over its suppliers

The power of buyers

Buyer power within the airline industry - and especially the low-cost market - is relatively strong, as customers will often shop around for the better price, particularly with the dependence that the low cost airline has on Internet sales. Price discrepancies can be easily found and exploited by the consumer, meaning that the operator must keep a regular check on prices.

Need for customer loyalty because of low switching costs

Customers have the Civil Aviation Authority (CAA) on their side which provides:

1. protection against the consequence of travel organiser failure for people who buy package holidays, charter flights and discounted scheduled air tickets; and
2. licenses airlines and ensures compliance with requirements of European and UK legislation relating to financial resources, liability and insurance of airlines.

Rivalry among existing firms

Ryan air, BMIbaby, MyTravelLite and Buzz are major competitors of easyJet in the UK. Virgin Express, Hapag Lloyd Express, Germanwings and Air Berlin already are or might become competitors in the light of future expansion

plans. Ryanair is the only one of these so far to have succeeded and shown a continuous yearly profit (see appendix 2 for financial data).

A growing number of tour operators (like Thomas Cook and TUI) are selling air only scheduled seats to reduced prices.

British Airways and other traditional carriers out of the UK are competitors as well but on a lower scale as they target different market segments (see appendix 3 for more detail).

4. Marketing Mix

Price

Low price is a key element of the brand.

Uses differential pricing; off-peak travelling and booking in advance makes a ticket less expensive.

Discounts for tickets booked online.

Product

“ no-frills”, point-to-point air services

also car hire on its website (use of the Internet for bundling products) and links to other easyGroup websites (see appendix 1 for other easyGroup enterprises).

Place/distribution

Internet booking system (over 90% of bookings).

Telephone reservation system.

Promotion

Highlights its number one position among Europe's low-cost airlines (advertising strap line: " Size matters!", slogan: " the web's favourite airline")

Advocates internal marketing, creative work done in-house.

" No Bullshit" approach (Stelios), humorous, attention-catching campaigns (e. g. the giving away of free tickets on Go's inaugural flight and Stelios protesting in a orange boiler suit against an increase of airport fees at Luton in a branch of Barclay's bank which owns the airport).

5. SWOT – Analysis

5. 1. Internal Analysis

Strengths

Image, differentiation on price and brand.

Is financially successful.

Is being seen as an innovative and flexible organisation.

Has a strong e-business.

Is part of the consortium that has been awarded to run UK's air traffic control system (NATS).

Weaknesses

Has no customer retention policy

Has little or no scope outside of Europe.

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Lack of service, flexibility and business focus (such as frequent flyer programmes e. g.) make the low-cost model unappealing for most business travellers.

The two drivers of growth, the focus on price and the focus on convenience (frequent flights, few connections, more nearby airports e. g.) are reaching their natural limits. Differentiation from there remains to be difficult.

easyJet's own success makes it difficult to recruit and train staff quickly enough.

5. 2 External Analysis

Opportunities

Experts predict great potential for future growth in the next years (see appendix 4).

The current recession is favourable as people and businesses are more cost-conscious.

More full-service airlines may withdraw from the regional market to focus on more profitable long-haul routes leaving the market to the low-cost operators.

The short-breaks market, an important market for easyJet grows more rapidly than the UK travel market as a whole.

Reduced aircraft prices

Threats

Difficulties to expand as viable new routes from London are scarce.

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Competition is likely to intensify, given the saturated market and the shortage of other options.

Increased competition is likely to lead to greater difficulties in demanding incentives from communities, like the very low fees easyJet received at Luton.

Companies cut on business travel in times of economic downturn and because of new time-consuming security measures travel substitutes like videoconferencing are introduced.

6. Situational Analysis

easyJet seems to be positioned very well with experts predicting excellent growth opportunities for the low cost-sector. Given the saturated market and the shortage of other options in the UK, competition is likely to intensify – inevitably followed by consolidation, an early sign of which is easyJet's purchase of GO. The UK market offers little growth opportunity, therefore concentration will be on the continental market, a step forward in this direction is setting up a major new base at Berlin, with flights from 11 European cities, and possibly as well on Eastern Europe. Focus remains on pricing Strategy and expansion of its route network. Promotion needs to persuade people that it is safe to fly

and establish easyJet as Europe's largest low-cost carrier (as easyJet is already doing in its advertisement: " Size matters!")

7. PEST Analysis – Marketing Plan

PEST analysis for easyJet for the next 5 years

The following factors are likely to have an influence on the airline industry and should therefore be taken into account when formulating a Marketing Plan for easyJet.

Politico-legal factors

Threat of war in the Middle East

The Air Miles scheme is not considered as a taxable perk by the government in the way that company cars are taxed which may change to allow easyJet to compete on more equal grounds with the likes of BA.

A EU east-enlargement may provide access to viable, new markets.

Economic factors

Likelihood of increasing fuel costs, congestion and other environmental restrictions, as well as the prospect of higher security and insurance costs to reflect the risk of terrorism.

As the recession is likely to last for some more time, business travellers will keep an eye on their travel expenses.

Globalisation should continue to boost traffic in the long-term.

The introduction of the single currency in Europe is likely to bring more business to easyJet as Europe becomes more integrated.

Socio-cultural factors

To win over the French and German publics might cause problems as there appears still to be a general reluctance to use credit cards over the phone and Internet.

The public are general quite friendly to the prospect of cheap flights.

However they may feel begrudged where they see promotions found in newspapers where flight are for £10 only to find that the actual cost is much higher for the particular time or day they wish to fly on.

Technological factors

A key 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.

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

8. Conclusion

8.1 Strategic issues facing the airline industry

The face of aviation is gradually evolving. The long-standing problems of the industry

– in the form of large numbers of network carriers and substantial over-capacity in many markets – were exacerbated by the events of September 11th (see appendix 5 for a post-Sept. 11th overview). This is likely to pave the way for some acceleration in the process of airline restructuring and

consolidation. Experts believe that there is not room for the current multitude of carriers in Europe, and that these will eventually be whittled down to three or four major airlines, with the others absorbed or restructured to focus more on regional traffic. This also represents an opportunity for ‘no-frills’ carriers to increase their market share. Along with this, some restructuring of the industry’s complex and outdated regulatory system will be required.

In the longer term, trend growth may itself slow gradually as the big air travel markets mature. In addition, falling yields, which have boosted air travel growth in the past, cannot be relied upon to persist, at least at the rate they have for the past decade or so. If cost trends are less favourable – for example because of increasing fuel costs, congestion and other environmental restrictions, as well as the prospect of higher security and insurance costs to reflect the risks of terrorism – the scope for lower yields would be less, and this might reduce future growth trends. A key issue will be the extent to which favourable cost trends – such as the impact of the Internet on distribution costs and cost synergies from industry consolidation – can offset these upward pressures on prices and costs. The full-service airlines, saddled with big networks and strongly unionised workforces, cannot easily embrace the management strategies of the no-frills airlines. Moreover, their scope for defensive mergers is limited by competition policy. The ability of international airlines to expand is limited by ownership restrictions (In the US foreigners cannot own more than 25% of a national airline, in the EU the restriction is 49%).

The “ no-frills” market within Europe is immature relative to that of the US.

The

sector accounts for only around 5% of all intra - European capacity, though the share

is much higher in the UK domestic market and on services between the UK and

Europe, closer to 20%. Further strong growth is expected over the next 2-3 years as

new operations start up, and new destinations are added to the existing carriers’

networks. However as the UK market becomes saturated, these carriers are likely to

focus their development at continental European hubs. The experience of the US market suggests that deregulation will be followed by industry consolidation. So far there has been limited progress in this direction but many are viewing the current crisis as the catalyst necessary to completely restructure the European airline industry . In the US the industry has consolidated into seven major carriers, which carry over 80% of passenger traffic of US airlines. Europe is far more fragmented with the equivalent figure for the seven European majors at only 47%.

8. 2 easyJet's Future

easyJet has to consider whether it should respond to new entrants by ceding niche-segments or by competing aggressively on price, routes and service in an attempt to drive the entrant out of the market. To make the strategic decision market research on the size of different combinations of pricing and service is needed. easyJet also needs to know how much it costs the competitor to serve, and how much capacity the competitor has for, every route in question. Finally, the new entrant's competitive objectives are of relevance to anticipate how it would respond to any strategic moves easyJet might make. By obtaining these information residual uncertainty would be limited, and the incumbent airline would be able to build a confident business case around its strategy. It is advisable that easyJet targets mainly leisure travellers as business often demand frequent flights to a wide range of destinations, seek quality service and frequent flyer programmes, and are willing to pay a premium for these benefits. Also, trying to appeal to widely different customer needs runs counter to the overall trend in service industries, in which distinctive approaches, tailored to different customers, have generally come to dominate. No real opportunity offers the long-haul business as it is very different, both technically and in customer needs, to short-haul travel. easyJet should continue to focus on price and attempt to connect the dots in its network, which cost less than opening new cities. Thereby, it needs to make sure that a growth in its network and fleet does not lead to higher operating costs. It should also consider putting more emphasis on direct marketing by e. g. introducing a customer retention scheme. To differentiate its brand further on promotional lines, easyJet could introduce a CRM (cause related marketing) scheme, developing a reputation

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for being a 'caring airline', e. g. by selling shares in forest help programmes over its website, collecting foreign currency on flights for charity etc., thereby giving its passengers 'a sense of psychological comfort and well-being' when they choose to fly with easyJet. Overall, easyJet has to develop a realistic and accurate assessment of the market-niche to be served. A relentless commitment to quality service and cost control is as important as the discipline to establish a growth plan (see [www. easyJet. com](http://www.easyJet.com) for easyJet product life cycle and marketing strategy).

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Appendices

Appendix 1

Under the easy brand Stelios Haji-Iannou has furthermore established and Internet car rental service (easyRentacar), a chain of Internet cafes (easyEverything), a financial services site (easyMoney), a portal site for bargains on the net (easyValue) and a free e-mail service (easy. com). In all his ventures he is using "yield management to extract the ideal margin from each customer" and keep costs down. Furthermore, yield management "can help to better use price in the marketing mix to best reach the most customers". However, there are no cross-shareholdings between easyJet and these other easyGroup companies. easyJey operates independently from the other companies although some cross-marketing agreements do exist. Also, results of the non-airline businesses have been mixed as they have lost £75m in three years.

Appendix 2

Profit for Ryanair

April – September 2002 Year-on-year increase

151m € (£96m) 71%

Source: Tran, M. (2002)

See <http://www.ryanair.com/download/morganjune.pdf> for actual data.

Appendix 3

Compare Airline Traffic Data (Europe) – Air Transport World http://www.atwonline.com/Pdf/worldairlinereport_2002.pdf

Appendix 4

The airline market is currently being re-shaped by the expansion of existing low-cost airlines. It has been estimated that they will expand their European market share from 5% to 25% by 2010, establishing themselves on a long-term basis.

(Source: International Travel News (2003), available on <http://www.internettravelnews.com/article/20223> Friday, 28th November 2003)

Low-cost airlines are gearing up to take large chunks out of their rivals. In a decade, low-cost airlines may be the dominant form of air travel in Europe. In Europe, no-frills travel accounts for only 5% of European air travel, but it is likely to grow to claim a 12-15% share in the next decade.

(Source: BBC News (2002), available on <http://news.bbc.co.uk/1/hi/business/2038192.stm>; Friday, 28th November 2003)

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