

The easyjet business model and its market survival



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Easy Jet and the Airline Industry

The subsequent part of the paper is organised as follows. Section 3 discusses the aims, objectives and selection process of the research. Section 4 discusses the relevant literature that has been reviewed in the preparation of this paper . It will describe the airline industry and EasyJet’s strategy and business model. Section 5 outlines the methods adopted and the spirit of the methodology underlying the analysis of the findings.

Section 6 constitutes the conclusion that is drawn from the research of this paper. Section 7 is the bibliography and references used in the writing of this paper. This paper makes a case for establishing a large – scale business organisation to exploit a promising business opportunity in terms of providing education/career counselling for Indian students seeking professional advancement through overseas undergraduate/post graduate education.

The choice of the above thesis has been determined primarily out of my own experiences as an undergraduate student in the United States and later as a post – graduate in the United Kingdom. The principal motivation for the paper however transcends personal considerations and owes much to the emergence of social forces released by globalisation in developing countries such as India.

1. 1 – Globalization and Overseas Education

The Indian economy has been, for most of the period, following the attainment of Independence in the late forties, structured on a Mixed Economy model ^[1] that accorded economic primacy to the state. The spirit of <https://assignbuster.com/the-easyjet-business-model-and-its-market-survival/>

central planning dictated the allocation of resources in what was essentially a closed and autarkic economy that considered international trade to be of little relevance.

All this changed in the early nineties on account of the realisation that the centrist model of development was becoming increasingly irrelevant and incapable of providing the economic growth necessary to sustain a standard of living that matched those of other countries in the world. The collapse of the Soviet Union ^[2] had much to do with this new awareness since central planning in India had been particularly influenced by the Soviet model. In particular the Second Five Year Plan (1956 – 1961) ^[3] which placed heavy emphasis on state owned heavy industries and which played such a large part in shaping the Indian economy for nearly forty years was structured by the economist P. C. Mahalonobis who believed that the Soviet model contained the most promise to help India secure rapid economic growth.

However, even after four decades of development based on central planning, India had not made much progress, except for achieving what came to be called the “Hindu rate of gro

3. 1 – Aims

The aims of the research are to identify the airline industry and the EasyJet Business model and how does it survive in the market.

3. 2 – Objectives

The objectives of the research is to analyze the case study and answer the proposed research question by analyzing the airline market, EasyJet’s

business model, the future of the low cost carriers and the changing trends in the airline industry that could affect the business of these no frill airlines.

4. 1 – Airline Industry

The beginning of the aviation industry was by Wright brothers who launched their first successful flight in Kitty Hawk, North Carolina. Airline was not used as an option in early years because of fear of travel but today it is used as a fastest mode of transportation.

Since the 1980 RKP (Revenue Passenger Kilometers) was the way the growth of the airline industry is measured. This RKP is larger than the real world growth GDP. As we refer to the case in Exhibit 1 we can see the growth of the airline industry has faced many ups and downs since the 1980's. This changing trend in the airline industry has been because of a variety of reasons such as uncontrollable environmental factors, terrorism, globalization, technology, etc. The airline companies in the earlier years worked on a very huge profit or loss margin. If the number of passengers increases it brings in enormous profit to the airline and in the opposite case can bring huge losses. The airline industry also works on an extremely high fixed cost and therefore as the demand in the airline decreases the company faces huge losses. Also it should be taken into consideration that it takes 1 - 2 years to build a plane and therefore increasing capacity immediately because of higher demand can be taxing for the company.

The airline industry came into much use only during the 90's because the cost of production went down and therefore was more affordable by customers although yet expensive. Then there was no looking back for the

airline industry as it was a multi billion market and therefore competition increased drastically. Because of globalisation and other factors the demand for business and tourist travel increased at a more than double rate. The increase standard of living and changing trend of visiting places around the world also increased this need.

Increase in the travel was also caused because of competition of other private airlines besides the government airlines forcing competition and there after reducing prices even further.

The uncontrollable factors effect the airline industry directly or in directly. Some of the factors because of which the airline industry suffered are:

4. 1. 1 Deregulation of the Airline Industry in the US and in Europe:

In many countries in the earlier years the government would control certain strategic sectors and airline industry was one of them. The airline industry was deregulated in the 1978 in the USA and about 15 years later in Europe. This deregulation bought privatization and therefore there was tremendous increase in competition. In no time it changed from an oligopolistic industry to a perfect competition.

Europe was earlier run by the government whereby they controlled the entire system like where the airlines would fly, changes in price and the time they would fly. But after the European economy deregulated the airline industry competition increased even in Europe. The deregulation of the EU in 1992 and very minimal trade barriers as per the WTO has increased travel worldwide. This has also given the different airlines an opportunity to expand their network and apply better marketing to survive in this perfect

competition. One of the things that have changed the way airline industry is operating in 2000 is the introduction of the “ no frills low cost” carriers.

After deregulation as competition increased more than 75% of the companies left the market as they could not cope up with the high market share. When the deregulation took place in the USA a new airline called SouthWest airline was introduced that cut its prices by 70% therefore being ahead of the competition and capturing more and more market share. In Europe following the SouthWest model Ryanair and EasyJet came into existence.

Even besides deregulation the government yet controlled the time slots, landing rights and other privileges awarded by them. Government was also responsible in supporting the airline industry by building new infrastructure. Therefore even though deregulation took place there was a big political and governmental influence on the industry.

4. 1. 2 Persian Gulf War and Recession

The airline industry even though deregulated had suffered losses until it recovered in the 1988, but it was followed by recession in 1989 and the gulf war in 1990 / 1991. The gulf war and the recession which was elongated for four long years hit the industry with a loss of US \$22 million.

Besides the industry being affected badly there was also decrease in the amount of customers flying as they were scared. Also the high oil prices during the Gulf War increased the fixed cost of the airline which in turn increased prices drastically. Airlines became profitable only after 1995 as many cost reductions had taken place to satisfy customer needs.

4. 1. 3 World Trade Centre Disaster

As we can see in Exhibit II of the case study we can see that the airline industry was profitable from 1995 up till 2000 and then faced a deep dip in profits when the September 11th disaster took place. After effects of the September 11th made a few airline companies file bankruptcy as they suffered huge losses because of the high cost of production. The September 11th disaster increased security as they hired more personnel and security applications, increase in the waiting time for passengers and also made air transport very less attractive. Therefore airlines had to develop a cycle of trust for their customers as they were adopting alternative methods of conducting business like video conferencing and shared corporate jet. The substitution of flying increased business in video conferencing by 30% and also it lost 10% of its business and first class customers. SARS and Iraq war decreased earnings even further. All these above external factors directly or indirectly affected the airline industry that changed the way business was operated in the 21st century. The introduction of the budget airline industry is explained below:

4. 2 – Budget Airline Industry

A Budget Airline is a low cost airline which does not issue tickets, no connections, quick checking, only one class of tickets and sell directly to the customer.

Budget airline industry was introduced in 1971 by Rollin King and Herb Kelleher named SouthWest airline which followed the ticket less and no frill strategy. Many years later another airline was introduced following the

SouthWest model called RyanAir. It also focused on no frill model and focused on functionality. Just a little later Easy Jet was introduced which was a no frill, and web based booking airline reducing cost drastically.

Airlines like British Airways, Air France, Delta etc., earlier would charge a full price if a customer booked ticket in advance and then sold it for a cheaper price as the date comes closer. But airlines like Easy Jet applied a completely different pricing model that is cheaper tickets sold in advance and price increases as the date gets closer. Therefore this pricing model was later applied by many carriers for better profits.

4. 3 – History of Easy Jet

The easy jet was introduced by the son of the Greek shipping magnate, Stelios Haji-loannou who based it on the SouthWest Model that was introduced in the USA in 1995.

The easy jet concept is based their pricing model that reduces the air fare for passengers in short haul flights so that they can fly frequently. The traditional model was that the airlines were sceptical with lowering prices as it would affect the revenue but easy jet has completely proven them wrong as it is increasing its market share at a fast pace since its existence.

Easy jet today has more than 75 routes in 36 European airports. The seats are sole by telephone reservation or online eliminating the middle men that are the travel agents. After one year of its launch it designed a website that became a very important part of the business.

Easy jet is a member of the UK airline group that consist of seven other companies and easy jet is responsible to run the traffic control. Easy jet has invested millions of dollars to develop safe and reliable air traffic to increase and maintain capacity on air and ground for long term future growth.

In 2001 easy jet did a fantastic job by selling 75% of its seats online and therefore has been regarded as Europe's second largest airline in UK. This arose the need for expansion and therefore it acquired British Airway's subsidy Go. This acquisition made it the biggest low cost travel company in the world even ahead of its rival Ryan air.

The airline also signed a deal in 2002 to purchase 120 Airbus to achieve its goal for growth. Easyjet also followed the model of single fleet aircraft which makes it easier for maintenance, operating cost and training. But after its acquisition with Go the company faced a lot of additional administrative cost making it difficult for them to lower the prices.

4. 4 – Globalization and Technology

According to Cogburn (www. unesco. org) “ globalization is about the monumental structural changes occurring in the process of production and distribution in the global economy”. According to him “ global companies can break apart business functions and spread them across the globe”. As a result of these processes “ developing countries are facing tidal wave of changes, opportunity and challenges”.

Globalization has made the world a smaller place to live. It has also increased competition worldwide and therefore customers want the best quality at a cheaper rate. Because of globalization and customer demand the <https://assignbuster.com/the-easyjet-business-model-and-its-market-survival/>

airline industry has also changed the way it operates with “ no frills” strategy.

“ The internet will change how people live, play and learn. The industrial revolution brought together people with machines in factories, and the internet revolution will bring together people with knowledge and information in virtual companies...it will promote globalisation at an incredible pace. But instead of happening over 100 years like the industrial revolution, it will happen over seven years”. [Micklethwait John and Wooldridge Adrian (2000), p 36]

Companies also adopt to different global strategies like mergers and acquisitions instead of forming a completely new company. This helps the company to increase its customer base but it is also very important for the two companies to integrate themselves so that the core business and strategy is not destroyed. As in the case of EasyJet, it only operated one kind of aircraft for lower overhead and maintenance cost. But when it acquired GO it had different kinds of aircrafts that therefore it was very difficult to keep the price lower. Therefore it is important to follow different global strategies but extensive research needs to be done by forecasting the after affects.

4. 5 – Marketing – Alliance

The airline industry has developed from its nascent days when the Wright brothers invented the first airplane. Today it is a large and complex industry spanning the entire globe. Major considerations in the industry today are the

global capacity surplus and yield management to boost profits and achieve break even points.

The paper suggests that European airline industry follows four major business models, rather the business is divided into four categories of players -

1) National Flag Carriers, 2) No Frills Airlines, 3) Regional / Niche players and 4) Charter airlines

The National Flag Carriers are the major world airlines that cover a wide range of destinations and distances from long haul intercontinental flights to short distances. Distinct features of the major carriers are high service standards, common quality, frequent flyer programs and code-sharing.

During the 80's the major airlines of the world followed a " hub and spoke" formula to expand services - whereby they would operate from a single airport as its hub and fly to multiple destinations. British Airways was the 1st to develop the London Heathrow airport as its hub.

The benefits of the hub and spoke model can be seen from the significant tie-ups and partnerships major airlines have formed. This has given the flyers a large selection of flights and connections to virtually every corner of the world. It has also resulted in better yield managements so that airlines can operate higher load factors.

The paper states that airlines currently need 70% load factor for their Jumbo aircraft flying long distances and new aircraft to be launched will reduce that to 58% making airlines more profitable.

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A study done on the revenue generated by the major world airlines indicate a large portion coming from business travellers. After the global economic downturn in 2001, the airlines have seen double digit drop in business travel which has resulted in significant loss of revenue and profitability. The shift has been primarily due to the availability of cheaper alternatives and cost cuts in industries across the globe. As a result the market capitalization of the national carriers has fallen between 36% and 56% over a span of 2 years from 2001 to 2003.

4. 6 – No Frills

The No frills model is different from the traditional method of operation. The no frill airlines work on a minimum standard of service, low prices and short flights. The key to their core business is the low cost pricing strategy. Pricing is mainly controlled in the three areas that is:

4. 6. 1 – Inputs

Low cost in inputs is achieved by low cost of labour, similar airplanes for lower maintenance and operation, reduction in airport fees as it would not fly at the big airports, lower wages and better utilization of staff for example two shifts instead for three, and usually take older flights that have a lower investment.

4. 6. 2 – Product Design

The product design is point to point arrangement with use of secondary airports. This saves cost and helps improve on time performance as the secondary airports are cheaper and less crowded as compared to the busy ones. Point to point arrangements also reduces connection passengers. All seats in a no frill airline are coach and has lesser space. They also do not

have any lounges, catering and no bag transfers between flights. This helps them to save cost and improve their performance.

4. 6. 3 – Process Design

The process design offers simplified boarding, disembarking and aircraft service. This helps the airline to save turn around time and therefore can make multiple trips. There are no agents and booking is usually done over the internet which reduces the sales cost and therefore can provide the customer with additional discounts.

Therefore as we can see that the inputs, product design and process design reduces the cost by 59% as show in exhibit VI. The table divided the three by reasons of cost reduction by different percentage and it can be seen that each contribute to lower cost for the company drastically.

4. 7 – Competition

As we know that the no frills strategy has changed the way business is operating in the airline industry. Therefore many major players are fighting to be profitable. Every player is changing its strategy and experimenting in the new market.

Lufthansa has reduced capacity and increased its pricing by 4. 5%. This is a new strategy adopted by them as they are reducing the amount of aircraft that is operating. They are also cutting wages for workers as well as the remuneration.

However other airlines like BA and KLM started new subsidy to compete with the no frill carriers like EasyJet and Ryanair. Both BA and KLM required high

investment when their core business was suffering and both of them sold off their operations finally to concentrate on their core business and strategies.

Lufthansa who were reluctant to start their own low cost carrier finally invested into Eurowings. They also started a number of flights to Germany called the Germanwings. It was noticed that these major players were investing in many low cost routes by increasing their capacity to capture more market share. They also wanted to keep prices lower to take away the market share from other modes of transportation. British Airways and Lufthansa worked on a strategy that provided lower cost than any of its other competitors and these tickets purchased did not need to be booked in advance and was not a restricted ticket. They followed this strategy as it would have been very useful to the customer and in turn would be profitable to them.

4. 8 – Business Model

Easy Jet's business model is related to its pricing. It has a built in advantage as it reduces the overhead and administrative cost as it uses an eccentric approach. Easy jet makes every effort to lower all unnecessary costs as they do not deal with travel agents. Customer have to order their ticket either online or over the telephone where additional discounts are given to satisfy customers.

The easy jet success is linked to the internet model used by the company to sell tickets. This is a very cost effective and reliable model as globalization and technology comes into existence.

4. 8. 1 – Internet

Easy jet's ticket sales are mainly through the internet. Almost 75% of its sales is through the online website. Earlier customers were a little sceptical to use credit cards and make payment online but in today's high tech world it has boosted the sales of the company drastically.

The customer places the order over the internet which gives them a wide variety of choices and dates and fares available on each flight. The fares offered by Easy jet are lower than the competition and therefore preferred by the customer.

Usually majority of the airlines work on a return trip basis, but Easy jet follows a one way strategy giving customers the choice of flying one way, round trip or multi leg trip giving them the best and cheapest options available as per date and time that is preferred by the customer. Flights that are booked through the web are priced much lower than the telephone giving the customer as advantage by the airline reducing its over head cost.

4. 8. 2 – Customer Purchase Experience

The website of the company is designed as a process that allows the passenger to exit at any time if he changes his mind. The website does not need the passenger to insert details every time he or she needs to view the time and date for a particular flight. The website also has a login system whereby it stores the name, address and all other related personal details so that the customer does not have to take the trouble to re-enter information every time he or she wants to purchase a ticket. Therefore it registers user names and password so that the entire process is fast and not time consuming.

As we know a lot of airline companies as you to fill personal details before they give you the price, date, and time of a particular flight. This can get the customer really frustrated as sometimes they only want to check the price to compare it to what the other airlines offer.

This ease of use facilities of the website offered to the customer and the low prices available as compared to any other competitor makes it a memorable experience for the customer who wants to return back to easy jet at any other time he or she wants to make a purchase. This website and pricing model has developed a positive brand image for the company by which it retains customer loyalty and increases its customer base.

4. 8. 3 – World Wide Web (WWW) Strategy

The web strategy applied by easy jet has been so successful that more than 75% of their sales are through the internet. Therefore the company is trying to phase out of the telephone reservation to reduce cost even further and will be one of the only airline that would sell airline tickets only through the internet. Their marketing strategy to phase out of this telephone reservations has started by not listing its telephone number on any marketing and advertising material but just noting its website for further business.

Their main reason to phase out of this is because this web approach has been very successful so far and therefore they are confident that it will do well in the future as technology advances and the use of computer is increased and known to all.

4. 8. 4 – The Philosophy

Easy jet has been constantly doing new things to develop and increase business. It follows the differentiation and first in the market strategy to build its customer base. It has completely changed the operation of the airline industry as many people are aware and buy from easy jet because of the low price of the ticket as well as easy availability for one way, multi leg and round trip tickets. Besides cost cutting and efficiency provided they believe in satisfying their customers a 100% as the word of mouth strategy has been proved successful in any business. Therefore these low cost methods of advertising and marketing have made it possible for them to sell tickets at a lower cost compared to all other airlines available in the market.

The business model used by easy jet has allowed it to achieve growth in the mature airline industry by applying differentiation strategy in this highly competitive world. It has put a positive perception in the mind of the customer and operating very efficiently and economically as it depends more on the functionality of the airline rather than the frills offered to the customers. The strategy used by easy jet is bold and modern and can be risky for them as they decided to make sales only through the internet. The company applies sound principles while exploring the market by doing extensive research and therefore is ready to take a few risks as it believes that changes in the company is required for future profits and growth.

4. 9 – Future

The future of the no frills low cost carrier's looks bright as more and more customers are wanting to spend less on travel as they have many options available. As we know that no business model today is perfect so therefore

there are a few flaws to this model also as the low comfort of passengers to travel in an aircraft with food and enough leg space, security provided by these aircrafts is questionable and also the uncertainties and external factors of the future can effect the airline industry as it has done over the past.

4. 9. 1 – Low passenger comfort

The model applied by low cost carriers is very simple as it follows a no frill strategy. But it is questionable that this model may be too simple for travellers who want to keep their status and also business people whose travelling expense is paid by the company expense. Therefore they would not mind paying a premium price for their comfort and status. Also majority of these low cost carriers may cancel or reschedule a flight without prior notice and a business traveller going for some important work would not be able to afford missing an important meeting or order. Also it has to be taken into consideration that low cost carriers like EasyJet fly to secondary airports as they cannot afford the busy airports. Therefore this may not be acceptable to everyone as the secondary airport may be a little far away from the city and therefore other modes of transportation will need to be taken for them to reach their destination. Low cost carriers also work on the policy of no cancellation or advanced booking cheaper price but this may not be useful in times of emergency when the customer would end up paying the same price for a normal fare ticket by a major airline and a low cost airline. Therefore the future will determine the changing trend in the airline industr