Deregulation and a easyjet case study

In economics terms, deregulation is where the government removes official barriers to competition (John Sloman).

One of the first industries concerned by regulation have been the transport and telecommunications sectors. It consists in a shift to a competitive economic climate by reorienting and/or suppressing regulatory mechanisms (hofstra). However, deregulation does not necessarily refer to complete absence of free market regulation measures but rather to the promotion of competition inducing ones as elimination of monopolies for example. In theory, less regulations will lead to a raised level of competitiveness, therefore higher efficiency and lower overall prices.

But deregulation is different from liberalization because a liberalized market can be regulated to protect specially the end consumer rights (free definition website). Sine the beginning of the mid-1970s, a strong political movement has been created to fight against regulatory program because of public dissatisfaction and economist’s criticism (Palgrave). The first major programme to be dismantled was airline regulation. For a long time economists had criticized the regulatory regime imposed on airline. They had claimed that excessive competition was a dream without application to the structurally competitive airline industry. According to Morrison and Winston (1986), the industry after regulation has been operating more efficiently trough economic measures.

The majority of firms has increased their profitability and the most operative airlines has offered more services between small and medium cities thanks to cost reduction. To conclude, the deregulation gives to consumer an important gain. 85% to 90% of passengers now travel at reduced fares within the European Union. During the eighties, the positive experiences with airline deregulation in the United States, the lobby of airlines and consumers in favour of deregulation, the new economic theories and the European Unification process allowed the deregulation and the unification of the European aviation market.

Before 1987, the European industry had been regulated by national government. Government had got the monopoly of their own national carriers, called flag-carriers. Indeed, they regulated the domestic market and protected their boundaries (Hausarbeiten website). With the expansion of the European Union and the collapse of trade barriers, the airline industry was deregulated in 1997, based on the US deregulation in the 1980s (college research website). The European deregulation was completed in three stages. It first started as an idea in 1987 on the creation of an European aviation market, and by 1997 any airline holding a valid air operator's certificate in the EU can fly any route within the region, including services entirely within another country.

This is the outcome of the " freedom of the air", influenced by the EU policy on the free movement of citizens and goods around the Union. Every " package" reduced gradually the regulatory restrictions, this was the result of offer to airlines the chance to expand route across the continent and to apply market strategies with greater accuracy (Capstone, 2002). The consequences of the European deregulation have been 80 airlines entered the market in 1995 and 1996 but 56 of them declared bankruptcy the fist year of their operations. The European deregulation has less impact than the

US one. Low-cost entrants must face weighty legal obstacles to get the approval of the Civil Aviation Authority (CAA) and must pay 40 % higher costs than US due to higher airport charges inflexible labour conditions (College Research).

About 400 millions passengers use the Western European airspace each year. Between 1998 and 2001, passenger numbers rose to 19% and the demand is growing. Air travel has the most impressive growth over the last twenty years in relation to the others forms of transport. In 1998, the Flag-Carriers owned 75% of the market share whereas Charter airlines held 23% and only 2% for the low-cost segment. But in 2001, low-cost companies increased their market share up to 7% compared to Flag-Carriers (72%) and Charter (21%), which lost shares.

The leaders are Lufthansa with 12% of market share, British Airways (11%), Air France (8%), Alitalia (7%) and Iberia (7%) (European Airlines case study). Boston Consulting Group is expected that the low-cost carriers will expand their European market share from the current 5% to 30% by 2010. Their growth rates increase of 15 to 60 % per year. EasyJet and Ryanair are the largest and the most established low-cost companies, which have revolutionized air travel by slashing prices. The others companies are BMI (British Midland), Monarch airlines, Virgin Express, Flybe..

. 1. Low-cost conceptRyanair started the low-cost revolution in 1991, applying the originally concept created by US airline Southwest in 1967. This concept began with the third regulation " package" in 1993 into the UK because of the lower labour costs, the huger London market and the profitable regulatory environment (Doganis, 2001).

The successful low-cost business model is founded on three key elements (Burghouwt and Huys) :* low operating costs caused by low personnel costs (ticket-less sales, cheap labour), low airport fees (use of secondary airport), low maintenance costs (single aircraft type) and high level of productivity (high daily utilisation by reducing turnaround time)* simple product offered (no frills). There are no free catering or entertainment, higher seating density and no seat reservations* positioning in the market. They offer high frequency, scheduled, point-to-point short-haul services and they use very aggressive marketing communication. 2. Presentation of Eas yjetEasyJet is the first European low-cost carrier. It is run by M.

Ray Webster and belongs to the big society " EasyGroup" which also owns " EasyInternetCafe" and EasyCar. com. The company, owned by the Greek millionaire Stelios Haji-Ioannou, reached a turnover of £367 million in 2001, risen by 35 % (journal du Net). The company's first flights began in 1995, from London Luton to Glasgow and Edimburg. In 1996 EasyJet extends its activity to the international market. After creating its website in 1997, the company officially brings in its shares to London Stock exchange in 2000.

Today EasyJet offers 88 routes from 36 European countries (hausarbeiten). EasyJet is positioned as a " Low Fare, No Frills" company. The principle is to cut all the secondary costs which make the big flag-carriers more expensive. Here are examples of savings Easyjet practices in order to be more competitive and this is due to the deregulation (Office of Fair Trading, hausarbeiten and Easyjet websites) :* Using the Internet to decrease distribution costs: with 90% of their seats sold through the Internet in 2001, EasyJet keeps one of the first places on the internet retail outlet within UK thanks their Yield Management strategy.* Direct sales: seats are sold mostly through the internet , through their call center or at a sale desk in airports.

, which limits intermediary costs.* Bringing the capital profitability to the optimum: by organizing more flights than traditional airlines, they reduce plane individual costs.* Using only one type of plane: for more facilities and less maintenance costs: Airbus is now their privileged supplier after Boing* Trips devoid of flight ticket: passengers only get a confirmation e-mail which provides the essential information about the flight and a confirmation number. This practice enables to decrease issue costs, distribution costs, data processing costs and modes of control.* Management without paperwork: EasyJet has simplified its working methods by using exclusively electronic systems linked to a protected international network, which ensures flexibility.* Meals purchased on board: meals are not taken into account in the ticket flight but can be purchased on board: this enables an easier management on board and avoids wasting rotation time on ground.

This also contributes to eradicate services which are not indispensable as much as fret carriage.* Using secondary airports in GB: it is cheaper and less crowded, which reduces stopover time and favors the increasing of supplementary rotations, maximizing the use rate of planes.* Using huge airports in Europe : EasyJet operates increasingly from mainstreamairports alongside the flag carriers. 3. Easyjet and the regulationThe European deregulation has changed the airlines market landscape and had been a direct impact on Easyjet. The deregulation allowed to Easyjet to adopt new management layers and work methods (see above) in order to be able to quickly adapt to new technologies.

These require creative, polyvalent and committed workforce. This organizational changes aim at cost-driven rationalization, particularly through downsizing, reducing hierarchies, introducing decentralized profit centres and using more contingent workforce (course booklet). It is true that Easyjet is currently existing after the deregulation through its low operating costs, which has a direct impact on the employment (they use new technologies to reduce personnel costs). Before the deregulation, the flag-carriers were protected by the government. The customer has been never considered as the centre of interest regarding flying schedule and fares.

The number of passengers that each national airline could carry were negotiated between the government and the flag-carriers through a " bilateral" agreement (Capstone, 2002). Then, the competition was not represented and the employment rate was excellent and stable but despite government subsidies, most flag-carriers accumulated losses due to high-cost structures and operational inefficiencies (college research). The deregulation enabled to national airlines to reorganize themselves in order to be competitive. Maybe flag-carriers cut off their workforce but they became more profitable. The new entrants had created employment and customers gained an added-value.

They can travel more often and at a greater price.