

easyJet

One firm that has successfully followed the low-price strategy is easyJet, founded by Stelios Haji-Ioannou, a graduate of London Business School, in 1995 with £5 million borrowed from his father, a Greek shipping tycoon. Copying, similar operations in the USA, and Ryanair flying out of Ireland, easyJet was one of the first 'low-cost' airlines in the UK, flying from Luton to Scotland. He then launched similar low-cost, no-frills services to continental Europe. The company has transformed the European air travel market and has spurred many rival imitators. easyJet was floated on the Stock Market in 2000 at 310p a share, making Stelios £280 million profit.



'You start the business as a dream, you make it your passion for a while and then you get experienced managers to run it because it's not as much fun as starting. I think there's a lot to be said about starting a business and a lot to be said about running a business when its mature.' (*Sunday Times* 29 October 2000)

A central strategy of being low price is being low cost and that has a number of implications for how easyJet and its rivals are run. Low cost comes from two driving principles - 'sweating' the assets and high operating efficiency. easyJet flies its Boeing 737s for 11 hours a day, four hours longer than BA. Their pilots fly 900 hours a year, 50% more than BA pilots.

In terms of operating efficiency, it means:

- Aircraft fly out of low cost airports. These are normally not the major airport serving any destination and can be some distance from them;
- Aircraft are tightly scheduled. They are allowed only 25 minutes to off-load one set of passengers and load another, less than half the time of its scheduled full-fare rivals.
- Aircraft must leave and arrive on time (they will not wait for passengers), and if there are delays they can have horrendous knock-on consequences for the timetable. Nevertheless punctuality is varied, with the low-cost carriers just as good as full-fare airlines on some routes;
- There are no 'slack' in the system. easyJet admits to having "one and a half planes' worth" of spare capacity compared with the dozen planes BA has on stand by at Gatwick and Heathrow. If something goes wrong with a plane it can lead to cancellations and long delays;
- There are fewer cabin crew than full-fare rivals and staff rostering is a major logistical problem.

In terms of customer service, it means:

- No 'frills' such as free drinks, meals or assigned seats;
- There is no compensation for delays or lost baggage;
- The low-cost airlines do not guarantee transfers as the planes could be late;
- The low-cost airlines concentrate on point-to-point flights, whereas the full-fare airlines tend to concentrate on hub-and-spoke traffic.

easyJet is aggressive in promoting its brand and running advertising promotions to get more 'bums-on-seats'. It realises that its planes must have a high seat occupancy to be economic. To this end it is particularly inventive with pricing,

encouraging real bargain hunters onto the less popular flights during the day and promoting early bookings with cheaper fares.

easyJet has been at the forefront of the use of the internet for virtual ticketing, to the point where it now sells most of its tickets over the web. This means it does not have to pay commission to travel agents and check-in can be quicker and more efficient. Its web site has been held up as a model for the industry and many have copied it.

However, easyJet does have competition and some airlines are cheaper. Whilst easyJet claim an average price of £45 per 600 kilometres, Ryanair claim £34. This compares to British Airways' price of £110. Interestingly Ryanair has so little faith in its timetable that it advises passengers not to book connecting flights. In 2002 easyJet bought one of its major rivals, Go, with whom it had been in fierce price competition on certain routes, to the point where tickets were being given away with only airport tax to pay. One of the first things easyJet did was to close the Go flights on these routes and restore prices. As well as eliminating competition, the purchase of Go had other strategic reasoning behind it. easyJet were purchasing market share in a fast growing market (in 2002 it grew 60%) where there are economies of scale. They were also buying new routes and landing rights, which can be difficult to secure.

One of the fears about low cost airlines is that they will be tempted to compromise on safety for the sake of cutting costs. The British Airline Pilots Association has claimed that pilots of low cost airlines can be tempted to cut corners to achieve flight timetables. Stelios himself has fuelled the safety debate by expressing doubts about Ryanair's use of 20 year old planes on some of its routes, pointing out that though they might improve profits in the short term, they put the future of the whole airline at risk in the event of an accident. Ryanair is phasing these planes out and does have an unblemished safety record. But the industry is all too aware that the low cost US airline, Valuejet, went bankrupt after one of its planes crashed in 1996, killing all 110 people on board. As the Economist says (17 August 2002): 'the low cost airline business is not for the faint-hearted'.

Only seven years later, in 2002, and still owning 29 per cent of easyJet he realised that he was not suited to managing an established public company and was better suited to being a serial entrepreneur so he resigned as Chairman, aged only 35. He was to be replaced by Sir Colin Chandler, aged 62, part of London's financial establishment as chairman of Vickers Defence Systems, deputy chairman of Smiths Group and director of Thales. Shortly later easyJet took over Go, the low cost airline set up by British Airways and sold off to its management. Newspaper comment at the time suggested Stelios had been blocking such a deal and this might have been one reason for his departure.



'Running a company that is listed on the Stock Exchange is different from building up and running a private company. The history of the City is littered with entrepreneurs who hold onto their creations for too long, failing to recognise the changing needs of the company. I am a serial entrepreneur.....It is all part of growing up. I've built something and now it is time to move on.' (*The Times* 19 April 2002)

Stelios still had many other 'easy' ventures to grow. These include easyRental - a car rental business, easyEverything - a chain of internet cafes and cinemas and easyValue - which provides impartial comparisons for on line shopping. He still has everything to play for doing something he enjoys more and possibly does better.

Case questions:

1. Based upon this information, undertake a SWOT analysis on easyJet
2. Compared to Ryanair and British Airways, where would you place easyJet in terms of Porter's generic marketing strategies? Is this sustainable?
3. What is the underlying strategy behind all of Stelios' 'easy' ventures? Can this strategy be replicated in any market? What is required for it to work?