# easyJet plc Synopsis


BUS 478 - D300

Aaron Mah
Alan Chang
Jeffrey Cho
Kyle Low
Rebecca Wang

March 18, 2013

# INTRODUCTION

## *Background in Brief*

easyJet Airline Company Ltd., a British discount airline company, was established in 1995 by Stelios Haji-Ioannou as part of the EasyGroup conglomerate. It provides scheduled passenger airline services and started its operations with two wet leased Boeing 737-200 aircraft, initially operating two routes from London Luton to Glasgow and Edinburgh. In the subsequent year, the airline expanded its routes to Aberdeen, Amsterdam, Nice and Barcelona. Its first wholly owned aircraft was also delivered in the same year. In the following years, easyJet launched the easyJet.com website and purchased a 40% stake in the Swiss-based charter airline TEA Basel AG, later rebranding it as easyJet Switzerland (Datamonitor, 2012, p. 6).

In the early 2000s, the airline became listed on the London Stock Exchange and further expanded its route network across Europe. It set up multiple bases at airports in countries such as Germany, France, Spain, and Italy, effectively bolstering its presence in Europe. Airbus became easyJet's preferred aircraft supplier and long-term purchase orders were placed (Datamonitor, 2012, p. 6).

Throughout the latter years, easyJet rapidly developed a prominent presence in the industry. It completed its acquisition of GB Airways and entered into a partnership with HostelWorld.com to provide accommodation services on its website for its customers (Datamonitor, 2012, p. 6). In 2012, the airline formed a corporate travel deal with UK travel management businesses FCm Travel Solutions and Corporate Traveller (Datamonitor, 2012, p. 8).

## *Company Goals*

easyJet aims to become Europe's leading short-haul airline by making air travel simple and affordable. This is reflected in the airline's values of prioritizing safety, being ambitious to work together as a team and becoming the best it can be, and making travelling easy and simple for everyone (easyJet, n.d.).

*The Organization Today*

easyJet is currently headquartered in Luton, Bedfordshire and provides short-haul point-to-point passenger airline services in the UK and mainland Europe (GlobalData, 2012). easyJet is held by the parent holding company easyJet plc and includes subsidiaries that provide airline and other related services. The subsidiaries include easyJet Switzerland, easyJet Aircraft Company Ltd., easyJet Sterling Ltd., and easyJet Leasing Ltd. (Datamonitor, 2012, p. 5).

easyJet, the largest airline in the UK, operates throughout Europe from 23 bases and flies over 600 routes between 130 airports across 30 countries (Datamonitor, 2012, p. 5). In addition to its core airline service, it also provides in-flight and internet-related services such as accommodation and car rental.

During the 2012 fiscal year, easyJet achieved revenues of £3,854 million, an increase of 11.65% from 2011's revenue of £3,452 million, and a net profit after tax of £255 million, an increase of 13.33% from 2011's net profit of £225 million. In addition, easyJet's return on equity increased by 0.6% from 2011 to 14.6% (easyJet plc, 2012, p. 20).

## CURRENT SITUATION

*Market Share*

easyJet is currently the second largest short-haul carrier in Europe with an 8% market share (Bloomberg, 2012). Its market position varies considerably within each specific region; for instance, easyJet is the largest carrier in the UK with a market share of 20%. Other prominent markets include Italy, France, and Portugal, where easyJet is positioned at second and third with market shares of 11%, 12%, and 13%, respectively. The company is currently focusing its efforts in Switzerland because of the market's growth capacity of 7.2%. It has recently taken market leadership in regions such as Geneva (37%) and Basal (43%) (easyJet plc, 2012, p. 12).

*Financial Performance*

For the year ended September 30, 2012, Revenue per seat increased by 5.86% from £55.27 in 2011 to £58.51 in 2012. In addition, cost per seat excluding fuel decreased by 1.01% in 2012. Profit before tax per seat rose by 21.16% from £3.97 to £4.81 (easyJet plc, 2012, p. 5). With £645 million in cash and cash equivalents and a current ratio of 1.05 (easyJet plc, 2012, p. 67), easyJet's strong financial standing allows it to expand and strengthen its networks and market share.

## CURRENT STRATEGY

### *Objectives*

easyJet's objectives are as follows:

**1. Build strong number 1 and 2 network positions**

easyJet maintains number one and number two market share in 21 valuable airports that are limited in slot allocations. It actively monitors the returns of its routes to ensure that the maximum capacity is reached. If certain routes are underperforming, resources are reallocated to other routes for optimal returns (easyJet plc, 2012, p. 14).

**2. Maintain cost advantage**

The way easyJet operates gives it a competitive advantage against competitors operating from traditional airports and business models. For instance, easyJet solely utilizes Airbus aircraft to fly its routes, giving it flexibility to change capacity amounts and to capitalize on appearing opportunities (easyJet plc, 2012, p. 14).

**3. Drive demand, conversion and yields across Europe**

easyJet continues to implement a wide range of initiatives to stimulate demand. The company has driven increased revenue through a refreshed approach to its internet, television and mobile marketing. easyJet is in the process of renewing its customer contact strategy through partnerships with leading providers such as Europcar and booking.com. It is now primarily focused on customer insight and segmentation (easyJet plc, 2012, p. 15).

**4. Disciplined use of capital**

The aviation industry is extremely capital intensive. Meticulous budget and financial planning must be implemented in order to optimize growth and risk. easyJet actively works to accomplish this objective by efficiently allocating capital and leveraging its balance sheet to reduce costs and to withstand external shocks. One important aspect is to ensure excess capital is returned to shareholders when the timing is optimal (easyJet plc, 2012, p. 15).

*Strategic Intent*

easyJet's mission is as follows:

*"Leverage easyJet's cost advantage, leading market positions and brand to deliver point-to-point low fares with operational efficiency and friendly service for our customers" (easyJet plc, 2012, p. 8).*

*Safety First*

Apart from its goal of becoming Europe's preferred short-haul airline, easyJet's foremost responsibility is safety. The company values its customers and staff safety as it is one of easyJet's guiding principles. Safety is the starting point of every decision the company makes. It works closely with the UK, EU and European governments and authorities to coordinate effective responses to air traffic disruptions caused by extreme weather conditions or other unexpected events. Launched in 2009, the Safety Management System (SMS) ensures the highest standards of risk management and oversight are embedded in everything the company does. Also, easyJet continues to develop the on-board ash detection radar AVOID (Airborne Volcanic Object Identifier and Detector) in 2012. This radar is pioneered in 2010 in collaboration with Norwegian Institute for Air Research and its inventor, Dr Fred Prata (easyJet plc, 2012, p. 32).

*easyJet Lean Programme*

The purpose of easyJet's Lean programme is to help the company protect its structural costs. The programme has generated more than the expected £90 million in 2012. In addition, easyJet expects to earn another £35 million in the 2013 financial year. Savings are being achieved by driving cost efficiencies through best in-class procurement, leveraging scale, tight control of overhead costs, greater crew flexibility and improved operational performance (easyJet plc, 2012, p. 15).

*Fleet Flexibility*

easyJet aircraft inventory management has been designed to be flexible in terms of the number of aircraft being deployed. As of September 30, 2012, easyJet owns a fleet of 148 aircraft, 55 are operating-leased, while 11 are finance-leased. By operating-leasing a fleet of 55 aircraft, it allows easyJet to lease the aircraft for less than the useful life. This means at the end of the operating lease the lessor has the possibility to pursue the lease, return, renew, restore, or purchase the equipment at its market value. In addition, easyJet is capable of moving its excess fleet to other locations in order to obtain possible higher returns.

*Marketing Campaigns*

In 2012, easyJet introduced numerous campaigns and initiatives to increase its demand and revenues. Unit revenues rose by 7.5% on a constant currency basis to £59.41. Campaigns the airline used, including “europe by easyJet”, helped increase customers’ brand awareness, understanding and the likelihood of flying with easyJet (easyJet plc, 2012, p. 15).

Other initiatives easyJet introduced consist of attracting business travellers by partnering with Global Distribution System and travel management companies, introducing mobile applications to allow customers to experience “making travel easy.” The introduction of the InspireMe map application targeted people who may not know where or when they want to travel (easyJet plc, 2012, p. 15). The app offers the customers possible flight destinations and its costs to allow them to possible travel ideas with easyJet.

*Integrated Cost Leadership and Differentiation*

easyJet’s airfare continues to be one of the lowest compared to its competitors’ airfares. Its low airfare gives it a competitive advantage in the airline industry. It also differentiates itself from other low airfare competitors by offering excellent customer service. Therefore, easyJet offers quality flights at a low price to attract more customers.

## ENVIRONMENT

*Industry Environment*

easyJet is currently competing in a highly difficult industry environment. Although discount airlines with strong low-fare business models are among the few who have managed to continue strong operations within the industry, there are many factors affecting the future of these companies. Some rising issues within the aviation market include increasing fuel costs, restricted growth opportunities, and limited consumer demand due to economic difficulties. Regulatory changes have also affected easyJet's bottom line with the increase in various unreasonable airport charges. easyJet has experienced first-hand impacts of these industry conditions as certain routes had a decline in capacity with the plateau of the European short-haul market (easyJet plc, 2012, p. 12).

easyJet also faces challenges that are not within its immediate control. This includes fluctuations between currency rates and inflationary pressures from the current European economic situation. These macroeconomic shifts significantly impact the company's revenues and can induce modifications to its business model.

*Competitors*

In response to the difficult operating environment, many carriers have chosen options such as exiting the industry or changing ownership. easyJet's top competitors from the remaining carriers include Europe's largest discount airlines, such as Ryanair Ltd., Air Berlin plc, and Flybe Group plc. easyJet competes directly with these carriers in providing ultra-discount short-haul flights to European consumers.

*Internal Environment*

**Tangible Resources**

easyJet currently owns 23 bases, 214 aircraft (A319 and A320) and operates 605 routes. A large number of these routes and bases are located in the UK, allowing it to sustain its market leadership. Financially, easyJet held a record profit of £317 million in 2012. The company also has the ability to hedge forward on a rolling basis, between 65% and 85% of the next 12 months' anticipated fuel and currency requirements. It is expected to hold this same capacity in the following year at 45% - 65% of anticipated requirements (easyJet plc, 2012, p. 16).

**Intangible Resources**

easyJet's intangible resources include its staff knowledge, trust and its people strategy at the gate and on-board flights. easyJet delivers its exceptional customer service through organizing its strategy under five core strategic pillars: HR service delivery, organizational effectiveness, leadership, management and development, high performance culture, and talent and succession. In addition, the company's partnership with UNICEF allows it to market its brand through a charitable cause (easyJet plc, 2012, p. 33).

## STRATEGIC CHALLENGES

### *Managing Increase in Operational Costs*

In order for easyJet to keep its airfares low, it will need to manage its operational costs efficiently. Airport fees and fluctuation in fuel prices, for example, are the main costs that easyJet incurs from its operations. Thus, in order for the airfares to stay low, the company will need to absorb these cost increases. Since easyJet continues to be a cost leader, its margins will not be as high as its competitors. Therefore, it can mitigate its costs by hedging oil prices by agreeing on suppliers' terms and landlords' contracts.

### *Continuance in Providing Excellent Service by Satisfying Crew Members*

An aspect that differentiates easyJet from its other low-cost competitors is the quality of service the crew members offer to the customers. In order for easyJet to continually provide excellent service to customers, sufficient training needs to be provided. This will provide benefits to the company through differentiating it from its competitors. In addition, crew members' satisfaction need to be maintained. By keeping crew members satisfied, they will perform their jobs more efficiently and provide better customer service. As a result, easyJet will have to be more responsive to crew members' feedback and concerns.

*Maintaining and Expanding its Market Share*

The already saturated European aviation industry is becoming increasingly more competitive, with carriers experiencing tightening profit margins. Not only does easyJet compete with local European carriers, but also Asian and other foreign carriers that are entering the market and establishing intra-European routes. easyJet will have to strategically navigate the competitive landscape in order to expand, if not maintain, its current position as the second largest discount carrier operating European routes.

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