The Low-cost Orange Flying Machine: The Case of easyJet

Introduction

The colour orange is increasingly becoming synonymous with the firm easyJet as it has become one of the world's most profitable low-cost airlines (Alamdari and Fagan, 2005). This paper examines the basis of their success and argues firstly, that easyJet from its inception essentially adopted and stayed with the original low-cost model that was pioneered by Southwest airlines in the USA. Moreover, this is a model that has served them well, resulting in sustained business performance and growth over a decade. However, our second point is that with this growth, and increased competition, there are signs of the need for a change. Accordingly, in what follows, we examine in turn: the historical origins of easyJet, emphasizing its values and the influence of the Southwest airlines model; the essential features of its business model; and some indication of its business performance over time.

Historical Origins: Personality, Values and the Southwest Way

EasyJet was conceived in 1995, with its first flight occurring in November of that year. There are numerous descriptions of the early start-up days, but one of the most vivid is surely the following (Calder 2006: 113):

> The entrance to the average airline's headquarters is an impressive affair, intended to impress visitors. But the HQ of Britain's most successful low-cost airline is far from average. For a while, the modest foyer of easyland – the huddle of temporary buildings from which one of Europe's leading airlines is run – was adorned by a tent. It was a small, two-person job, strung from the roof… Take one shipping millionaire, two Boeing 737s normally used for British Airways flights and several dozen gallons of orange paint, and you have a revolution in the skies. But industry watchers like myself were slow to realise the scale of the upheaval signified by the first flight of easyJet.

The picture conveyed above stands in marked contrast to the subsequent growth and current performance of easyJet. Indeed as we were preparing the first draft of this paper easyJet announced that pre-tax profits were up by 55 percent to a record £129 million in the year to September 2006. Turnover was up 21 percent, passenger numbers by 11.5 percent (to 33 million), the share price hit an all time high, and 52 new Airbus jets were to be ordered (Financial Times 2006). The contents of Figure 1 below lists some of the key milestones in the evolution of easyJet.

Event	*Time*
• First flight	November 1995
• Appointment of Ray Webster as Managing Director	March 1996
• First international flight (Amsterdam)	April 1996
• One million passengers mark passed	October 1999
• easyJet floated on London stock exchange (shares six times oversubscribed)	November 2000
• Online bookings reach 80% (highest proportion in the world)	2001
• Stelios announces he will step down as Chairman	April 2002
• easyJet acquires GO (becomes largest low-cost airline in Europe with 81 routes)	August 2002
• easyJet announces that it will grow aircraft capacity by 25% per year until 2004	October 2002
• easyJet exceeds £1 billion turnover figure for first time (fleet size = 44 aircraft)	2004
• Two profit warnings	Early 2004
• Ray Webster announces intention to retire as Managing Director	May 2005
• Icelandair acquires stock in easyJet	October 2005

(Source: extracted from Jones 2005)

Figure 1: Milestone events in easyJet's development over time

Much of the early discussion of easyJet pivoted around its founder, Stelios Hajin Ioaanou ('Stelios'). His personality, background, 'entrepreneurial approach' (Rae 2001) and 'managerial style' were all much discussed: the 'no frills' working environment (e.g. no private offices) and the 'orange culture' (i.e. 'being up for it'; 'passionate' and 'shar'p) were held to be important legacies following his stepping down as Chairman in 2002.

In what was initially seen as very much a 'personality-driven' organization it is important to emphasise the place and role of Southwest airlines in influencing the personality of the Chairman. As one study stated: 'It was not until he flew on Southwest airlines that Stelios felt he had found the right concept for a European airline. Stelios intensively researched Southwest, meeting with founder and CEO Herb Kellacher and buying 250 copies of Nuts – a book documenting Southwest's success – for distribution to potential employees and customers. (Sull 1999: 22)

Southwest airlines is very much an organization in which a high level of 'selective perception' is apparent among observers and emulators; you can see what you want to see in it (Pate and Beaumont 2006) To easyJet the key message received, accepted and followed faithfully, was to adopt and stick to the original low-cost model pioneered by Southwest.

The Basic Low-Cost Business Model

The key features of this model are outlined below in Figure 2 below.

Product Features	
1. Fares/ network	Low, simple and unrestricted fares, high frequencies, point to point, no interlining
2. Distribution	Travel agents and call centres (today internet sales), ticketless
3. Inflight	Single class, high density seating, no meals or free alcoholic drinks, snacks and light beverages for purchase, no seat assignment
Operating Features	
1. Fleet	Single type, Boeing 737, high utilisation, 11-12 hours per day
2. Airport	Secondary or uncongested, 20—30 minute turnarounds
3. Sector length	Short, average 400 nautical miles
4. Staff	Competitive wages, profit sharing, high productivity

(Source: Alamdari and Fagan 2005: 378)

Figure 2: The original Southwest Airlines low-cost business model

Indeed, if anything easyJet appears to have achieved further leverage along the 'no frills' dimension of this basic model: travel agents were completely avoided (direct sales only) and passengers had to pay even for soft drinks and snacks (Sull 1999, 23). Such features of the easyJet low-cost model were held to be acceptable, or indeed attractive, to 'people who pay for travel from their own pockets' (Sull 1999:23). Specifically easyJet targeted three cost-conscious and price-sensitive customer segments: (1) the traveller visiting relatives; (2) leisure travellers working brief trips; and (3) entrepreneurs and managers from small firms.

At this stage we need briefly to comment on staff conditions (competitive wages, profit sharing, high productivity) in Figure 2. First, in a general sense, it is remarkable how little human resources and staffing matters figure in discussions of the easyJet strategy (Sull 1999; Jones, 2005); they are essentially conspicuous in their absence. Secondly, if one turns to more specific matters there are grounds to question the reality of the staffing approach in Figure 2. For example, on the competitive salary front, it has been estimated that pilots at easyJet earn around 25% less than pilots working for traditional carriers (Jones 2005: 151). This differential was a considerable source of tension and difficulty when easyJet took over the airline GO in August, 2002, with calls for strike action occurring at the time (Jones 2005:91). In the latter part of this paper we turn to look at these sorts of human resources and employment related matters in more detail.

The Basic Business Model and the Bottom Line

Earlier we made reference to the impressive performance figures of easyJet for the year to September 2006. This has not been an isolated success story. For example, easyJet pre-tax profit figures rose from £5.9 million in 1998 to £40 million in 2001, and now to the current all time high of £129 million.

At least one major study has attributed this success to easyJet sticking very closely to the original features of the low-cost model outlined in Figure 2. In essence this research (Alamdari and Fagan 2005), which involved 10 low-cost carriers in Europe and the USA, reported that, firstly, easyJet adhered very closely (74% compatible) to the original model, a figure only exceeded by that for Ryanair (85%) (Alamdari and Fagan 2005: 388). Moreover their second key result was that the closer one adhered to this model, the higher was profitability. The success of easyJet (and Ryanair) in this regard has been noted in other studies. For instance, the McKinsey Quarterly (2005) reported that easyJet and Ryanair account for about 50 percent of seat capacity in Europe's low-cost market, with between 2004 and 2006 only easyJet (8.9%) and Ryanair (29.4%) having positive average operation margins.

Although both easyJet and Ryanair are always hailed as the two financial success stories of the European low-cost sector, with both adhering most closely to the original low-cost model (Figure 2), it is important to recognise important differences between them. For example, easyJet's unit costs are reported to be double those of Ryanair, with the former break-even point (76% of capacity) being higher than that of Ryanair (63%) (McKinsey Quarterly 2005). Other differences between the two, which have been noted, are that easyJet has more head –to-head competition with the conventional carriers because it uses more established airports than Ryanair (Jones 2005: 211).

Much of the bottom line success of easyJet has been attributed to its yield management system which seeks to extract the maximum revenue per flight (Jones 2005: 212). It is these sorts of sentiments which underpin their micro-type targets. For example, the aim is to grow the current profit per seat figure of some £2.50 to £5 by the end of 2008.

Are there Signs of Changes in easyJet's Business Strategy?

Current profits are good and the emphasis on yield measurement and tough targets will still remain. This said, there are signs of some actual or proposed changes in the business model. These have arisen because of the rise of new low-cost competition, changes in the conventional carriers (limited frills), and external pressures such as oil price rise.

The changes are designed to address some concerns of existing customer segments and to attract new customers. For example, in April 2003 easyJet launched a dedicated website for business travel arrangements which allows corporate customers to access monthly management information so that they can track travel spend. In June 2005 it introduced easyJet lounges, which passengers had to pay for, but which were viewed as attractive to business travellers. Figures released in The Times (11th November, 2006) suggest that they have been relatively successful in capturing the business market: Stansted and Luton (easyJet's London bases) have the highest proportion of frequent flyers among major airports at over 50 percent as compared to 39 percent of passengers at Heathrow. Measures have also been taken in recent years to address customer concerns regarding the lack of clarity of the full fare until the last stage of booking, through an upgraded software system. A key question remains; can easyJet consistently capture the business traveller sector, with their considerable expectations of 'added extras' while remaining true to their winning formula of cost leadership? Only time will tell.

References

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