



easyJet

THE WEB'S FAVORITE AIRLINE (ABRIDGED)

The safest way to become a millionaire is to start as a billionaire and invest in the airline industry.

Richard Branson,
Founder, the Virgin Group

Research Associate Brian Rogers prepared this case under the supervision of Professor Nirmalya Kumar as a basis for class discussion rather than to illustrate either effective or ineffective handling of a business situation.

"If you create the right expectations and you meet or exceed those expectations, then you will have happy customers," proclaimed Stelios Haji-Ioannou, the 32 year-old founder and CEO of easyJet airlines. Since its launch in November 1995, easyJet had become one of Europe's leading low-cost airlines by adopting an efficiency-driven operational model, creating brand awareness, and maintaining high levels of customer satisfaction.

After receiving £5 million from his father in 1995, Stelios began operating easyJet with two leased aircraft. Although London's Heathrow and Gatwick were major international airports with higher passenger traffic, Stelios chose Luton because it offered lower labor costs and close proximity to downtown London, and charged lower airport fees.

The first easyJet flight, from London to Glasgow, was advertised for a one-way fare of £29. The flight was completely full, in large part because Stelios had launched an extensive public relations and advertising campaign with the slogan, "Fly to Scotland for the price of a pair of jeans!" By November 1999, easyJet owned and/or leased 18 Boeing 737-300s, and flew 27 routes in Europe.

Stelios modeled easyJet after Southwest Airlines: one type of aircraft, point-to-point short-haul travel, no in-flight meals, rapid turnaround time and very high aircraft utilization. However, Stelios added his own twist to the Southwest concept: he completely avoided travel agents, issued no tickets, and flew brand new Boeing 737s using the maximum seat capacity of 149 seats. Moreover, he decided not to offer free drinks or peanuts; everything would be for sale. The only free item was easyRider, the in-flight magazine.

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Company Background

The company's headquarters, referred to as "easyLand," was located at London's Luton airport. Just like the airline, easyLand was no-frills. Employees were instructed to dress casually, and Stelios sat in the same open-plan office as everyone else. He had no personal secretary, maintained a paperless office, and expected everybody else to do the same.

Because easyJet offered low fares, it sought to minimize costs where possible. For example, easyJet saved £14 per passenger by not offering meal service, and estimated that by flying into London's Luton Airport instead of Gatwick, it saved £10 per passenger. The airline also shaved costs by not offering business class seating, thus allowing for more overall seating capacity.

Moreover, easyJet encouraged Internet sales. By October 1999, Internet sales had soared to 60% of revenues. Stelios offered discounted fares to customers who purchased over the Internet because such sales reduced the need to hire additional reservation agents. He avoided computer reservation systems and travel agents because he believed that they added 25% to total operating costs.

The airline also turned its airplanes around faster, flying planes 11.5 hours per day, instead of 6 hours, the industry average. Because easyJet flew its planes more hours, Stelios claimed that he could fly just 2 planes, and do the work of 3. Although easyJet had achieved profitability in 1999, margins were quite small; the airline earned £1.50 profit per passenger.

Even though easyJet carefully monitored costs, Stelios emphasized that safety was never compromised. The airline only flew brand new Boeing 737s, and only hired experienced pilots who were paid market rates. Stelios commented:

If you advertise a very cheap price, people expect an old airplane. But when they come on board and see a brand new plane, they are impressed. Likewise, many customers expect an unhappy staff because they believe they are not paid well, but they come on board and see the staff is smiling!

Initially, Stelios had outsourced many of the airline's operations because it lowered costs and increased efficiency. Typically, the airline provided the planes, pilots, cabin crew, marketing and sales people. Subcontractors handled all other responsibilities, from check-in to the on-site customer information desk.

Competing on Service

One of the distinguishing characteristics of easyJet was its approach to customer satisfaction. Stelios flew on at least four flights per week, and enjoyed interacting with customers. He had even been known to work the phones selling tickets. Stelios was wary of market research, preferring to cull information directly from passengers. He also read and replied to many of the emails he received from customers.

All of easyJet's fares were one-way fares and had the same restrictions. The cost to change a flight was £10 plus the difference between the two fares. Only 4% of customers failed to show up for their flights, and easyJet offered no reimbursement for missed flights.

Customers were required to pay by credit card, after which they received a six-character booking reference number. This reference number was the only information passengers needed to board the plane. Reservation agents were paid on a commission basis, at a rate of £0.80 per seat sold, and could sell 60 to 90 seats during an average eight-hour shift.

The airline did not offer any pre-assigned seating, but instead utilized a priority boarding procedure. Passengers were given a number based on the time they checked in, and those passengers who arrived late for check-in had to sit in whatever seats remained.

Using yield management, easyJet tried to fill as many seats as possible. Seats were sold in what could be considered a lottery system; the more people demanded a particular flight, the higher the fare.

Punctuality at easyJet was important. Because customer satisfaction was linked so closely to punctuality, responding adequately to the needs of customers was very important to Stelios. If a flight arrived more than four hours late, Stelios instructed his staff to write a letter of apology with his signature and to issue a full refund.

Stelios also generated publicity for easyJet through highly publicized, and often full-scale attacks on his competitors. (*Refer to Exhibit 1 to view an example of easyJet's attacking ads.*) A 1998 industry poll indicated that the easyJet brand had a recognition rate of 88% in London; in Geneva, brand awareness was 82%. According to Philippe Vignon, marketing director, "Whenever there is an opportunity to make some news, we do it!"

Corporate Culture

Stelios wanted to build a strong, inclusive employee-culture at easyJet, which led to the creation of the easyJet Culture Committee. The committee, an elected group drawn from company staff, was responsible for establishing company policy on the working environment, communications between management and staff, and social events such as staff parties for the airline's 1,000 employees.

Every Friday at Luton, easyJet held a company-sponsored barbecue that the staff used to get to know one another better. Stelios believed in complete transparency, and all documents had to be scanned and placed on the computer system, so that anyone in the company could access them.

Following easyJet's success, Stelios was ready to enter other businesses, including the creation of a cybercafé called easyEverything. The idea behind easyEverything was to offer the Internet to the masses by charging as low as £1 per hour. The first café debuted in London on June 21, 1999 near Victoria Station and was open 24 hours a day. The café contained 400 terminals with state-of-the-art hardware, including flat screens and fiber-optic communication lines. Besides ambitious growth plans for the cybercafés, Stelios was also considering launching a rental car business and an Internet-based bank.

Exhibit 1
Ad Attacking British Airways



It's time BA came out of the closet!

On 25 May 1999, British Airways announced their 1998/99 results, but they still refuse to disclose how much of the £25 million they put in their low-cost airline has been lost over that period. Last year **easyJet** convinced a High Court Judge that any cross subsidy between BA and its subsidiary could be illegal. The case is still pending, and BA is doing everything it can to avoid disclosure of the facts.

We are so convinced that BA's low-cost airline has made a substantial loss in their first year that we are having a competition over the Internet to guess the total amount lost in its first year of trading.

The 50 entrants nearest the correct figure will win themselves a pair of **easyJet** flights anywhere on the **easyJet** network! If there are more than 50 correct answers a tie-breaker will apply. The competition will close as soon as the results are released. In due course they will have to file them with Companies House. So if you want the chance to win a prize sooner, why not e-mail Bob Ayling at BA and persuade him to release the results.

COMPETITION

50 pairs of **easyJet flights up for grabs!**

Entries will **ONLY** be accepted over the Internet at

www.easyJet.com
the web's favourite airline

Source: easyJet