GROUP REPORT

The competitive analysis of easyJet

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Introduction

easyJet Airline Company Limited is an airline created in 1995 by the British entrepreneur Sir Stelios Haji-Ioannou. The headquarters of the company are based in Luton Airport. easyJet serves more than 500 routes and 129 airports in Europe, North Africa and West Asia. With 55.47 million passengers in 2011 (Air-Journal, 2012), easyJet is the challenger of the low-cost European airline market right behind the leader Ryanair.
As a 'low-cost' company, easyJet differs from traditional airlines by having very low fares. It seeks to keep costs low by eliminating the unnecessary costs and frills. The need to reduce costs is essential as a strategy to reach as many customers as possible.

Nowadays, with the opening of the European borders and the leisure-based society in which we live nowadays, travelling has become more common and the demand has increased tremendously. easyJet used these factors to develop its market. In 2011, easyJet realised an increase of 11.5% of its total revenue compared to the previous year. This evolution is very positive for the company and is the result of an important work on its strategy. Nevertheless easyJet is not alone in the low cost airline market and it has many competitors. To keep its position and become the leader in the market it needs to be better than its competitors by reducing its fares as much as possible.

Through this report, one will try to develop a competitive analysis of the company thanks to different study models. The first part will be based on Porter’s Five Forces Framework which gives a good approach of the competitive situation. Then, with Porter’s Generic Strategies, one will discuss the strategies easyJet adopted, and finally, the third part will deal with the SWOT analysis and focus on easyJet's external and internal situation.

Preface

The concept of 'low-cost' airline appeared in 1971 in the United States with the launching of Southwest (Southwest Airlines Co.). The principle is simple: the company offers much lower prices than its competitors, but in order to offer such low prices, the service is rather simple and usual things you get in traditional planes such as meals during the flight are removed. A few years later, Ryanair chose this model in 1991 and developed it in Europe. Since then, new actors appeared on this market, first in the United Kingdom and then in the whole Europe. In 1995, easyJet was created by Stelios Haji-loannou, the son of a rich Greek ship-owner. easyJet is based on this similar model and had to differentiate itself from its competitors to establish itself on an expanding market.

easyJet is part of the group Easy — itself created by the same person — that also includes a car service: EasyCar, loans with EasyMoney, cybercafes with EasyInternet, etc., which are also based on a low-cost policy. This report will only focus on the group’s airline. easyJet relies on a 'point-to-point' strategy: it delivers passengers straight to their destination, trying to make them avoid taking connection flights. It has several advantages, such as the travelling time with only one take-off and one landing, the reduction of gas emissions (environmental concern), etc. It contributes a lot to the image that the brand gives to its current and potential customers.

PART 1: Porter’s Five Force Framework on easyJet Company

1. The threat of new entrants is low
The airline industry is difficult to reach. Indeed, not everyone can have access to it because of its initial cost which is very high. Buying a plane requires a good amount of capital. Moreover, equipment linked with the airline industry are also expensive. That is why new entrants are restricted. Also, regulations are strict and airport taxes are high.

However, a big threat would be if traditional airlines want to enter the low cost market. Indeed, they would already have the necessary equipment and knowledge.

2. The power of suppliers is high.

There are two main suppliers that make up the majority of the production cost of air transport.

Airplane supplier

There are only two airplane suppliers - Boeing and Airbus -, so the bargaining power of easyJet is low. Indeed, it is difficult for them to change prices as they are not in a position of power. Airplane suppliers have a lot of other customers. But it is important to notice that the bargaining power of easyJet can be higher if they decide to buy several planes at the same time. By this fact they can lower the prices.

Oil supplier

Petrol suppliers have a high power. Indeed a plane cannot fly without any. That is why petrol suppliers are in a position of superiority. They can fix the price which is usually high and especially since the Iraq war, during which petrol’s price became higher than before.

Airport

The last supplier is the airport with the airport taxes. Indeed, when the plane lands, it needs to park and it has a cost. The airplane parking is expensive for any airplane company but for easyJet it is usually cheaper because planes land in secondary airports such as Gatwick airport instead of Heathrow airport, for instance.

3. The power of buyers is high

The bargaining power of buyers is high because in the same time the competition is intense as easyJet is not the only low-cost company, and it is easy for customers to choose another company for two main reasons: firstly, you can choose any company and the most suitable for you, and secondly, changing companies does not implement any cost of agent intervention.

4. Threat of substitution is low

The threat of substitute is low. Trains are a main substitute. They are known to be cheaper than planes for short journeys. Moreover, they are usually located within the city which is not the case for airports that are often out of the city centre, and therefore it means that people will need more time to go to the airport. The organisation is more
important when you decide to take a plane because the time to get there is longer and if you go with your own car, then you will have to pay for the parking.

Except for the location, trains do not have so many advantages, because easyJet (and low-cost companies in general) have prices that are approximately the same and sometimes cheaper than train prices.

We can also speak about vehicles, such as cars or buses, it is usually cheaper (notably when several people travel together) but the travel time is much longer for long journeys and less convenient (parking, etc.)

5. Competitive rivalry

easyJet is the fifth largest intra-European airline in terms of passengers. It is the second most important low-cost company after RyanAir which is its main competitor.

easyJet's competitors can be either direct or indirect.

The direct competitors are the other low-cost companies that propose the same product with the same range of prices. The main ones are RyanAir and FlyBe. Between these companies, the competition is extremely intense and each competitor attempts to gain dominance over others. Besides, one can wonder how easyJet differentiates itself to be better than others and especially from RyanAir. For instance, easyJet focuses on two segments of people, business travellers and people traveling for leisure whereas RyanAir only focuses on the leisure segment. Then, easyJet does use some of the main airports, such as Paris CDG airport or Madrid airport, whereas RyanAir uses especially minor airports.

The indirect competitors are the traditional airlines, such as AirFrance or BritishAirways. They are indirect competitors because they target different market segments; people interested in buying a cheap flight will be less interested in buying flight in traditional companies.

Substitutes are indirect competitors as well, but at a smaller level; as it has been said, trains or vehicles do present disadvantages.

In a nutshell one can say that rivalry is especially high for the direct competitors.

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**PART 2: SWOT Analysis of easyJet Company**

The SWOT Analysis is a tool for the strategic analysis. It combines the study of strengths and weaknesses of a company, and the opportunities and threats in its environment. This analysis allows identifying the strategic areas that need to be developed (Europeaid: n.d.).

In order to define a development strategy for easyJet, the estimation of both external and internal situation of Easy Jet is necessary.
1. External analysis

Opportunities

- The buying behaviour of the demand: customers are anxious to minimize transport costs (Thierry: 2007).
- Market expansion: easyJet can expand its business bases. There are new markets out of Europe, such as in Asia, representing many potential opportunities (Johnson, Gerry and Scholes, Kevan. Whittington, Richard: 2005).
- Internet revolution: with the increasing use of the Internet, the online booking system of easyJet is more accessible to customers.
- In December 2011, RyanAir has seen its activity decrease from 5% and easyJet increase of 13.1% (Air-Journal: 2012).
- Increasing fuel price forces easyJet to increase its rates: easyJet becomes vulnerable to fuel price fluctuations.
- Increasing competition: indeed, in this aerial market, rivalry is really important and limits easyJet's potential.
- We can distinguish direct competitors which are the low-cost companies like RyanAir, FlyBe, AER Lingus or Lufthansa, and indirect contestants like AirFrance, BritishAirways, which are traditional companies. Low-cost companies multiply themselves and traditional companies also create a low-cost subsidiary (Thierry: 2007).
- RyanAir represents a crucial threat for Easy Jet. In fact, RyanAir has a dominant position in the low cost aerial market; RyanAir is the leader on the market and easyJet is the challenger (Jamroziak: 2003). RyanAir counted 76 million of passengers in 2011 (Ryanair: 2012) and easyJet 'only' 54.5 million (easyJet: 2012). RyanAir's traffic grew of 5%, from 72.7 million in 2010 to over 76.4 million passengers in 2011. These two companies adopted different strategies. easyJet is more expensive to €5 in average per flight than RyanAir but it served airports closer to towns and which are better served in terms of infrastructure access (Thierry: 2007).
- Threat of substitutes is important. Other kind of transports such as Virgin Express or TGV concurrency easyJet with last lines Paris-Strasbourg and Lyon-Turin shortly (Thierry : 2007).
- Pressure from unions and employee relations committees can significantly impact on day to day operations with strikes having a big impact on the company’s image (Business teacher: 2011).
- The crisis educed the purchasing power for the households or the business trips considered like useless expending.

2. Internal Analysis

Strengths

- easyJet's positioning: easyJet is a leading provider of low budget - no frills air travel -, they offer a decent quality service with competitive prices and offer a number of features including ticketless travels, internet booking and assisted travel services (BusinessTeacher: 2011).
• Low costs and low fares: easyJet keeps costs low by eliminating the unnecessary costs and 'frills' such as free lunch, ticket paper system, etc., that characterises 'traditional' airlines (Johnson, Gerry and Scholes, Kevan. Whittington, Richard: 2005).

• Good reputation and very famous brand: easyJet has a good notoriety towards customers. For instance, in the United Kingdom, easyJet is recognized as a leading brand in the UK travel industry. easyJet has a strong brand image.

• easyJet has also a good communication with the use of a very attractive website, an effective advertising. For example, easyJet offers an online promotion alert which is e-mailed to loyal customers. (BusinessTeacher: 2011).

• Good performance of the company: indeed, easyJet has a lot market share. In fact in 2011, 54.5 million of people use easyJet to travel. We can notice an increase of 11.8% in 2011 compare to the previous year (Easyjet: 2011).

• easyJet, a green company: easyJet actively embraces environmental responsibilities and continues to keep these factors as a priority when developing their future strategies (Business Teacher: 2011)

• The wide range of destinations in Europe.

• Consistency and reliability. Evidences show that 93% of flights of easyJet arrive within 30 minutes of expected times, easyJet operates a fast and efficient service. (Benavent, C.: 2009).

• Speedy and flexible operations. easyJet is based on an e-booking model. It does not offer agency booking; passengers can only book via telephone (with extra fees) or the Internet: It is the e-booking system. Its website represents a big flexibility for customers: they can modify a flight already booked, for instance.

• Environmental threats: for example, the impact of Icelandic volcanic ash cloud that had paralyzed a part of the air traffic in Europe in 2010.

• Terrorism

Weaknesses

• Limited departure airports. Although easyJet flies to many European big cities, it still doesn’t reach some important airports such as London Heathrow airport.

• An only one booking system way: for people who do not use the Internet (a large part of the elderly, for example), this system is problematic. easyJet should really have more ways of bookings.

• Service limitation. There is a no frill service (extra charge for check-in luggage, food and drink, insurance, etc.). In addition, there is no business class in easyJet's airplanes, so it excludes some business travellers concerned with their comfort.

PART 3: Porter’s Generic Strategies with easyJet Company

People travel more and more, and give as a consequence the journeys' quality and price a bigger importance. That's why each company in the low-cost airlines industry, such as FlyBe or RyanAir, needs to take into account what Porter called generic strategies. Porter stresses the fact that there are two major means to overcome the competition: focusing on the cost leadership, or focusing on the differentiation strategy (Porter: 1980). Within the low-cost industry, the most interesting aspect is obviously the cost leadership, but easyJet is invested in both strategies.
1. Cost Leadership

The cost leadership is the strategy that easyJet rely the most on, because the low are what customers expect from the company. But in order to achieve such a strategy, easyJet needed to make some big shifts. Indeed, you cannot just lower fares without proceeding to turnarounds. That's why the company adopted their "low cost, no frills", enabling customers to go from A to B, without having to think about anything else (Johnson, Gerry and Scholes, Kevan, Whittington, Richard: 2005). The company is always seeking to lower their costs and pay off what they invested in. for example, their planes fly more than in traditional airline companies to cover their costs, they land in out-of-the-way airports where landing taxes are cheaper, etc. so that customers get the cheapest fares possible.

Thus, easyJet focused on cost leadership and needs to focus even more on it to overcome RyanAir, the leader.

2. Differentiation

The differentiation strategy is also very important, because in this competitive environment, each company needs to innovate in order to attract the customer, and make him or her choose its company instead of the competitors.

Proposing very low fares is part of the strategy of differentiation, with the "low cost, no frills" strategy that we mentioned before.

But the biggest improvement the company ever made, which significantly altered the airline industry, is the creation of e-tickets. Indeed, this solution enables not only to cut the personnel, but also it makes the customer's life much easier. He or she can have access to the latest news with the most affordable prices, check his or her bookings, and compare fares within a two weeks period. (Jelassi, Enders: 2008)

Besides, easyJet also tries to differentiate itself on the operational side of the company and on the service quality. According to Campbell, "We are low, low cost... [but] we also want to be known for our operational excellence, our on-time performance must be the best of the world. We'll continually drive down cost per seat and [increase] our profit per seat. [Overall], our customer proposition is low cost with care and convenience" (Bamber: 2009).

Thus, easyJet is seeking to combine low costs and convenience, but is it not utopian?

Conclusion

This report showed that easyJet is the challenger of the aerial low-cost market behind the British company RyanAir which is the leader. Recently, easyJet has shown its willing to progress. The different analysis demonstrated that easyJet is an important airline with a strong reputation. Many customers use it because easyJet's flights are considered as the cheapest in the airline market. Nevertheless, easyJet has to face a strong competition.
Indeed, it has to deal with both direct and indirect competitors. That is why easyJet focuses on the cost leadership strategy and the differentiation strategy.

In order to overcome the competition, easyJet should make improvements in its activity. So, one can give some recommendations to the company for a better strategic development. First, easyJet should promote and exploit more its associated services, such as EasyFinance, and EasyHotel. For instance, they could propose a travel kit gathering all services with a lower global cost: a shuttle system to enhance access to airports and then a bus that will link the airport to the hotel in partnership with the company, for example. They could also try to develop a new loyal policy, instead of the easyJet Plus, which only enables customers to jump the queue. For example a card system which allows cumulating points in order to have several vouchers, discounts, etc. They might also highlight the fact that easyJet is a green airline, to attract more people and broaden the customer’s target. For instance, they could include a green label in their logo. Finally, easyJet should position itself more in the intermediary sector. By this way, it would attract as well people who want cheap tickets (leisure sector) and the ones asking for more services (business sector), even if it does mean paying for extra fees.

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