

EasyJet - The Web's Favorite Airline

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Introduction:

"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.

Stelios, who preferred to be addressed by his first name only, considered himself a serial entrepreneur. Although he gained international fame as a pioneer in the airline industry, he first achieved business success at the age of 25 when he created Stelmar, a specialized tanker company. Anxious to replicate his past successes, Stelios aggressively pursued any business opportunity that he believed he could operate profitably.

Despite its early success, easyJet airlines still faced internal challenges that were typical of many start-up companies. Growing competition from other small, low-cost carriers, as well as threats from Europe's major carriers, required much of the company's attention and resources. Undeterred, Stelios relished the challenge and moved ahead in his mission "to offer low-cost airline service to the masses."

Stelios believed that in order to be successful, it was important to be first to market and to saturate the geographic market. "You don't need to conquer the world in order to be profitable," he argued. His strategy for market entry had been successful in the airline industry, but many wondered if he could transfer his low-cost business model to Internet cafés, rental cars, and Internet banking, three ventures he considered in 1999.

Company Background

Stelios first became interested in the idea of a European low-cost airline in May 1994, after being asked to invest in a Virgin Atlantic Airlines franchisee. Although he refused, soon thereafter, he flew on Southwest Airlines, a successful low-cost carrier in the US. That experience became the catalyst in his decision to create easyJet. Stelios asked his father, Lukas Haji-Ioannou, a Greek shipping tycoon, to invest in his startup airline. In November 1995, after receiving £5 million from his father, Stelios began operating easyJet with two leased aircraft and a staff primarily comprised of teenagers who served as reservation agents. 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!" Increasing demand soon led to flight service to Edinburgh and Aberdeen. Over the next two years, Stelios raised an additional £50 million in debt and equity to finance the purchase of four additional aircraft and to speed expansion. By early 1998, easyJet owned a fleet of six Boeing 737-300s and flew 12 routes in five countries. However, by November 1999 easyJet owned and/or leased 18 Boeing 737-300s, and flew 27 routes in Europe.

Stelios modeled easyJet after Southwest Airlines. He researched Southwest intensively and even met with the airline's CEO, Herb Kelleher, before launching easyJet. Stelios deeply admired the concept behind 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, encouraged direct sales over the Internet, 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. Stelios championed the idea of no-frills travel; the only free item on board an easyJet flight was easyRider, the airline's in-flight magazine. He argued, "When someone is on a bus, he doesn't expect any free lunch. I couldn't see why we cannot educate our customers to expect no frills on board." (*Refer to Exhibit 1 to view items available from the easyKiosk.*)

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.

In 1996/97 easyJet suffered pre-tax losses of £3.3 million.¹ However, in 1998 the company announced annual pre-tax profits of £2.3 million, the first time the

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