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Strategic Change

EasyJet: a case of entrepreneurial management?

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- *EasyJet has achieved significant growth since its formation in 1995 and has become the highest profile although not the largest operator in the European 'no-frills' short-haul airline sector.*
- *Its assertive public profile and successful stock market flotation in November 2000 reinforced its reputation for focused and effective management.*
- *The transition from private ownership to public quotation is a significant one for a fast-growing business to make, given the need to recognize institutional investors' perceptions as well as those of the public and of employee shareholders.*
- *The paper proposes that EasyJet is a prime example of entrepreneurial management in both its strategy and practice and that the case study can contribute to the theoretical and practical understanding of entrepreneurial management.*
- *A conceptual framework for entrepreneurial management practice is proposed, based on an analysis of the case study.*

Introduction

The aim of this paper is to explore the concept of entrepreneurial management through a case study of the low-cost airline EasyJet. It summarizes the development of entrepreneurial management in the academic literature and then narrates the formation and growth of EasyJet in the context of the major changes caused by the entry of low-cost operators in the strategic environment of the European short-haul airline industry. The article provides a critical analysis of how EasyJet's strategy has succeeded to date as well as of the projected strategy for future growth. Finally it assesses EasyJet as a case of entrepreneurial management, offering conclusions for management practice and entrepreneurial theory.

The emergence of entrepreneurial management in the academic literature

The study of entrepreneurship started to find points of convergence with the literature of strategic management during the 1980s, for example through the work of Kanter (1983), Drucker (1985) and Burgelman (1983). These authors proposed that established corporate organizations could rejuvenate their fortunes by systemizing entrepreneurial behaviour and innovation, as conceptualized in Guth and Ginsberg's (1990) integrative model. Although the related concepts of corporate entrepreneurship and corporate venturing were developed partly to meet the needs of large corporations,

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there is a tension reflected in the literature between the qualities of corporate strategic management and of entrepreneurship. Aiming to reconcile this, Stevenson and Jarillo (1990) advanced a set of propositions for corporate entrepreneurship, focusing on the pursuit of opportunity regardless of resources controlled; the orientation of employees towards detecting and exploiting opportunities; connecting resource networks to opportunities and organizational risk-taking. Recently Kanter (2000) proposed a dynamic model of innovation within a networked organizational context as a framework for corporate entrepreneurship, advocating cross-functional working within very small business units.

Given the focus of North American perspectives on the transformation of corporate organizations through adopting entrepreneurial approaches, have British writers taken a similar view? Watson (1995) argued against a 'fatal distinction' between entrepreneurship and professional management, suggesting in accord with Drucker (1985) that entrepreneurship requires the application of complementary management practices, especially in the area of strategic exchange of organizing, shaping and giving direction to people's work. Carr (2000) offered a critique of the culturally produced discourse of entrepreneurial management, stressing the role of government in creating this. She also noted the dialectic contradiction yet necessary co-existence between entrepreneurial freedom and rational control-centred management.

Entrepreneurship requires the application of complementary management practices

Significantly, Gibb (2000), like Kanter, advocates the virtue of 'smallness' in organizational thinking to stimulate entrepreneurial behaviour, arguing that large organizations are agglomerations of small ones. In enacting the 'entrepreneurial lifeworld' concept, he proposes the need for autonomy in strategy making, ownership, linking responsibility with reward, holistic management and networked, trust-based, rather than hierarchical relationships.

From a reading of these perspectives, it is proposed that there is still a gap in the literature on entrepreneurial management. Entrepreneurship theory continues to focus after Gartner (1988) on creating new ventures, while corporate and entrepreneurial management literature concentrate on how established large firms can become more effective in achieving corporate renewal through innovation and new ventures. The gap is in an understanding of how the new venture, whether independently or corporately owned, manages its strategic and operational learning and development so as to exploit the opportunity and to grow the business to the full extent (Rae, 2001). This requires an understanding of how management principles and practices can be applied to the growth of the entrepreneurial business. Bygrave (1998) cited Southwest Airlines in the context of the United States (US) airline industry, in arguing that entrepreneurs challenge and transform old industries. This article extends his analysis to EasyJet and its challenge to the European airline market.

Entrepreneurs challenge and transform old industries

The approach adopted in this article is to develop theoretical as well as practical understanding through the case method (Yin, 1994; Chetty, 1996). The research method was to gather public domain information for use as a teaching case. The information included airline websites, annual reports and accounts as well as air industry and business press coverage and government agency data. In addition, the author has travelled widely on low-cost airlines, using participant observation with fellow passengers. The teaching case study has benefited from discussion and critique by groups of postgraduate management students who have contributed to the case development.

Background

EasyJet has always been in the public eye (Sull, 1999). Launched in November 1995 by Stelios Haji-Ioannou with two chartered Boeing 737s flying between Luton and Scotland, it has grown in five years to become a leading European low-cost airline operating on 31 routes with 21 aircraft. The fleet is planned to increase in size to 44 aircraft by 2004. Behind the company's successful marketing and media relations (which often focuses on the flamboyant Mr Haji-Ioannou), it is necessary to analyse the reasons for EasyJet's successful growth and to ask whether this is likely to be able to continue. Is it also placed to meet the demanding expectations of institutional investors and of customers?

The EasyJet formula is not original. Southwest Airlines in the United States have developed a highly efficient model of point-to-point short-haul commuter and leisure flying. It became the world's most profitable airline through highly efficient operating practices such as intensive fleet utilization, fast turnaround times and crew flexibility, sharing the rewards with its staff by means of employee share-ownership (Porter, 1996). It continues to achieve revenue and profit growth, demonstrating the durability of its business model. No doubt Haji-Ioannou was impressed by SouthWest's efficiency, differentiation strategy and profitability. Just as Peter Woods created the highly successful Direct Line in the UK by replicating a North American model of 'selling insurance by phone', so Haji-Ioannou saw the potential for a European version of SouthWest Airlines.

A key to entrepreneurial management is in recognizing the potential market opportunity and acting to exploit this by creating a better business model in advance of competitors, without regard to the resources controlled (Stevenson and Jarillo, 1990). The opportunity for EasyJet was presented in the late 1980s by the European Commission, which implemented the 'open skies' legislation in stages, full deregulation being achieved in 1997. This aimed to liberalize air travel within the EC and challenge the cartel of flag-carrying national airlines such as British Airways, Air France and Lufthansa which controlled 40% of the available passenger-kilometres on scheduled intra-European flights through bilateral agreements, regulated by the International Air Transport Association (IATA) (Ghoshal *et al.*, 1988). Liberalization slowly changed this as new operators entered the market whilst greater competition took place between existing airlines. While capacity grew, seat prices remained high, being pegged to the fares of the flag-carriers which had a high cost base and inefficient operating practices in comparison with the US air market. Attempts by lower-cost operators to enter the market were blocked by denial of landing slots at main traffic hubs, or by anti-competitive and even illegal behaviour, as demonstrated by British Airways in the cases of Laker and Virgin Atlantic. There was very slow progress in Europe from an oligopoly to a deregulated market, in comparison with the much faster transition in the US (Button *et al.*, 1998).

While Haji-Ioannou saw the potential for a low-cost European airline on the US model, so did others and a number of new air businesses were started in Europe and in the UK during the 1990s. However, most of these have either stayed small, focusing on a specific market niche, have been acquired or merged, or have ceased trading. In 2001, there are five low-cost European operators, of which EasyJet and Ryanair are the two largest.

EasyJet's strategy

EasyJet's mission statement is:

> *To provide our customers with safe, low-cost, good value point-to-point air services. To offer a consistent and reliable product at fares appealing to leisure and business markets from our bases to a range of domestic and European destinations. To achieve this we will develop our people and establish lasting partnerships with our suppliers.*

The mission emphasizes values of safety, low-cost, efficiency and people development, while connecting with the operational business model. The point-to-point operation eliminates the complexity of the traditional hub-and-spoke model that causes disruption, customer dissatisfaction and extra cost. The EasyJet model is simple: it achieves maximum aircraft utilization at maximum load factor on point-to-point flights, minimizing overhead costs. While the public persona of EasyJet is ebullient, this is achieved through simple, efficient business processes, 'no frills' and an obsession with cost control.

The mission emphasizes values of safety, low cost, efficiency and people development

From its launch, seats were sold direct from a call centre and never via travel agents who would require commission, which the airline estimates saves 30% on booking operations. From 1998, web-based sales were promoted with customers being offered a £2.50 discount to book on-line. The success of this is apparent in achieving 80% of bookings on-line by 2001 and self-branding EasyJet 'the web's favourite airline'. The pricing model is a key element in the successful commercial operation. All fares are quoted one way, the earlier customers book, the cheaper their fare will be and all flight bookings are reviewed daily to predict their popularity, with fast-booking flights having seat prices raised. The passenger gets a booking number not a ticket, eliminating unnecessary steps that create cost. The result is a highly efficient booking operation run from one call centre and website that consistently delivers high load factors on flights.

The selection and marketing of routes is a vital step for any airline and new entrants often face blocking tactics in gaining landing slots at prime airports such as London Heathrow and Paris Charles de Gaulle. These airports are also the most expensive and most congested, causing delays. EasyJet chose London Luton as its first base, a relatively obscure airstrip with few facilities, otherwise used only by holiday charter and freight handlers. Still its main UK base, Luton offered low landing charges, virtually no restrictions on landing and take-off slots and fast turnaround times in compensation for its lacklustre image. The Luton base has not been problem-free since being acquired by Barclays, who increased landing fees while investing to improve the airport facilities. Other low-cost operators use London Stansted as their London base, which can be even less accessible than Luton although passenger-handling facilities are superior.

In the winter of 1995–6 EasyJet flew on three routes from Luton to Scotland and during 1996 added continental European routes to Amsterdam, Nice and Barcelona, followed by Majorca, Athens, Madrid, Zurich, Geneva and Malaga, while Liverpool and Belfast were added as UK destinations. Low-price fares to destinations on the French Riviera, Greece, Spain and Switzerland were highly successful with budget-conscious travellers who previously relied on charters, bucket shop agents or simply did not travel. Notably, EasyJet does not fly to prime airports such as Paris, Manchester or Frankfurt. Intra-European flights from non-EU Switzerland were only achieved through the acquisition of a Swiss charter company which was renamed EasyJet Switzerland, allowing flights to Amsterdam, Nice and Barcelona.

In 1997, EasyJet was granted its own Air Operating Certificate demonstrating its operational and financial soundness, having previously operated under the certificate of other airlines. As full European air deregulation took effect the same year, the European skies were open to the company so long as it could find the landing slots. Unquestionably, the EasyJet model found a potential new market of travellers who would fly if the price was right. EasyJet has been able to achieve significant growth by adding capacity and increasing its routes while attracting more new budget-conscious customers.

Strategic positioning

A clear bilateral divide has emerged since the mid-1990s between the operations of the regular fare airlines and low-cost operators. In the UK, 14% of flight capacity in 1999 was in the low-cost sector, compared to 4% of Intra-European capacity and 10% in the USA. The continental European market is expected to grow at 5% per year, reaching 25% of the market by 2015 (Dodd, 2000).

Within the UK, the existing airlines have responded to EasyJet by selectively discounting fares on scheduled flights. The low-cost operators have created a new market sector that also started to challenge the business-flyer-dominated flights of the larger operators. Two existing operators responded by setting up their own lower-cost operations. Within the UK–Europe market, EasyJet has faced five low-cost competitors. The key characteristics of the surviving four for the 1999–2000 operating year are compared with EasyJet in **Table 1** followed by a brief summary of each.

- **Buzz** KLM UK's short-haul division was rebranded as Buzz in 2000 and operates on Stansted–Europe routes, serving 21 destinations. Although offering good service standards it is peripheral to KLM. It offers a seasonal schedule of core flights to French destinations with skiing and business flights in winter and a leisure-oriented flight programme to Southern France and Spain in spring and summer. As a KLM UK subsidiary, the financial results of Buzz are not disclosed. It announced in 2000 that it expected to fly 1.3 million passengers that year and break into profit by its third birthday in 2002 while increasing capacity from 10 to 15 planes. It is probably too small to survive on its own and has a high cost base through flying to airports with high charges such as Frankfurt, Vienna and Charles de Gaulle, and using the 100-seat capacity BAe 146 commuter jet. KLM, its parent airline, is itself seeking a merger and the future of Buzz is bound up in the consolidation of the European airline industry.

Table 1. EasyJet's European low-cost competitors in 1999–2000

Airline	EasyJet	Ryanair	Virgin Europe*	Go	Buzz
Number of destinations	18	41	10	24	21
Aircraft	18	30	22	13	10
Capacity (available seat km)	3.3 m	3.9 m	2.9 m	2.9 m	N/A
Passengers	5.6 m	5.6 m	1.1 m	1.9 m	1.3 m
Net profit before tax per aircraft	£1.22 m	£1.74 m	(£0.17 m)	(£1.67 m)	N/A

* Figures apply to scheduled services only.

- **Debonair** Flying from Luton alongside EasyJet, the independent Debonair operated to mainland Europe briefly but suffered from financial weakness and its collapse in 1999 was attributed by Haji-Ioannou to Go's market entry, when he commented that British Airways had 'blood on their hands'.
- **Go** Go was launched by British Airways in 1998 after BA's offer to buy EasyJet was rebuffed. Widely seen as a spoiler tactic in view of BA's behaviour towards Laker and Virgin, EasyJet retaliated by accusing BA of unfairly cross-subsidizing Go and stole the publicity on the opening flight. Go established an efficient operation with flights from Stansted on 24 routes and a no-fuss, easy-to-use website. After reporting losses of £21.8 m and carrying 1.9 m passengers in the year to March 2000, it was seen as peripheral by BA and was put up for sale in November 2000. Go stated it was in profit on a monthly basis and expected to declare a profit by the end of its third year in March 2001. A trade sale or merger was considered likely but neither EasyJet nor Ryanair wanted to buy Go, which was acquired by venture capital fund 3i.
- **Virgin Express** Originating with the acquisition in 1996 of charter operator EuroBelgian Airlines, Virgin Express was an opportunistic move intended to take the Virgin brand into the low-cost European sector. It operated a network of 10 routes based on the European hub of Brussels but has lost money heavily, with a year 2000 loss of £40.8 m partly due to restructuring costs. After January 2001, scheduled flights from Brussels to eight European cities continued, while those to Shannon ceased. The failure of Virgin Express to achieve profitability suggests that a hub-and-spoke model is not optimal for the European low-cost market, because it is relatively inefficient and high in operating costs.

The problems at Go and Virgin Express occurred at the same time as a number of the secondary national carriers, including KLM, Alitalia, Sabena, TAP and Olympic, were in search of mergers to overcome their vulnerability. The higher cost base of such airlines when compared with the no-frills airlines, together with their lower ability to compete with the largest European carriers, led to their business being squeezed at both ends of the market. This position was reinforced by Ryanair declaring that it aimed to be one of the 'big four' European airlines by 2003.

- **Ryanair** The oldest established low-cost independent, Ryanair was started in Ireland in 1985 and broke the London–Dublin price cartel. It grew rapidly but unprofitably until 1990, when a relaunch following the Southwest Airlines template saw it focus on five routes with six planes. Subsequent growth was profitable and in 1994, the year before EasyJet started, Ryanair employed over 500 people, carried over 1.5 million passengers, offered fares of £49 return from Dublin to London and was in profit for its fourth successive year. Subsequent growth in routes, fleet capacity and customers saw Ryanair achieve New York and Dublin stock market flotation in 1997 and also initiate employee share ownership. In 1999, Ryanair announced a major investment programme of up to 45 new Boeing 737-800 series aircraft, which have a capacity of 189 passengers in comparison with the 149 of the Boeing 737-300 flown by EasyJet, offering a significant capacity increase for little extra cost per flight. During 2000, Ryanair launched www.ryanair.com, quickly achieving 70% of its bookings online and over 90% direct, making large savings in marketing and distribution by reducing commission on sales through travel agents. It offered astonishingly low fares from £1 return from Glasgow to London and £9 return on the Dublin–London routes (both net of taxes). It launched ten new European routes to Malmo, Hamburg, Verona, Sardinia, Lamezia, Provence and Perpignan, while continuing to link Ireland and Scotland. With 45 routes serving 11 countries, flown by 31 aircraft and a workforce of 1400 people, Ryanair became the second largest airline in the UK and Europe's largest low-fares airline. The target of carrying over 7 million passengers in 2000 was met with a rising trend in traffic growth during the year and a 42% increase in pre-tax profits over the previous year.

By the start of 2001, Ryanair had positioned itself to grow the fleet capacity and routes to carry 9 million passengers in 2002 and 14 million by 2003, a doubling of its 2000 results. It had developed the marketing and cost-control models to do this and demonstrated highly profitable operations, enabling a further share issue which financed increased capacity. As a UK-based airline, Ryanair had moved ahead of British Midland and was second only to British Airways in passenger numbers. However, its longer-term goals are highly ambitious, aiming for continued growth to carry 20 million passengers by 2008 and 30 million by 2010, with a fleet of around 100 aircraft and a European market position ahead of British Airways and rivalling Lufthansa. Chief Executive Michael O'Leary based this forecast on the growth of the European low-cost market together with the major flag-carriers concentrating on more profitable long-haul flights, leaving the bulk of European routes to low-cost carriers.

EasyJet: the climb to flotation and beyond

It was clear that EasyJet had to continue its aggressive growth in the face of competition from Go, Virgin Europe and Buzz which benefited from their parent companies' support. Stock market flotation was the obvious route to finance the projected expansion. As a privately owned company, EasyJet made limited financial information available in its early years. The published accounts show that in 1998, turnover of £77 m yielded a pre-tax profit of £5.88 m. In 1999 turnover almost doubled to £144 m but profit was negligible at £1.26 m, while in the pre-flotation year to September 2000 turnover climbed to £264 m with a pre-tax profit of £22.1 m.

Comparison of airline performance is affected by many variables but one vital ratio for a low-cost operator is the net profit earned by each aircraft. Routes, schedules, fares and employees can be varied relatively easily, but when an operator has the fixed cost of owning and financing a fleet of aircraft, they must be used as intensively and profitably as booking, scheduling and turnaround will allow. In 2000, each of EasyJet's 18 Boeing 737-300s in the fleet earned a net profit before tax of £1.22 m. In comparison, Ryanair's larger fleet of 30 similar aircraft earned over £1.7 m each in the year to March 2000 while the final quarter results of 2000 showed this had grown to £0.45 m over the three-month period, equivalent to £1.8 m in a full year. Factors that helped Ryanair's superior performance included their development of longer, higher-earning routes in mainland Europe and introduction of the larger-capacity Boeing 737-800. Appreciation of the Euro against sterling and hedging against fuel price and currency exchange rate fluctuations also contributed.

The EasyJet flotation took place when the London stock market was widely seen as overvalued and nervous about the health of dot.com and technology stocks. It was possible that EasyJet would be seen as too risky but in the event, the float was highly successful, with £195 m being raised at 310 pence per share, valuing the company at £777 m. Fifteen percent of the shares were allocated to staff and a further 9.45 million shares were authorized and subsequently issued, yielding a total of £224.6 m. However, the float was limited to institutional investors and individual applications were not accepted, despite which the shares were oversubscribed nine times. Unlike the dot.com sector, the shares subsequently performed well and appreciated in value to 416 pence by January 2001, a rise of 25% in three months, before falling in line with the market in March 2000.

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When individualistic entrepreneurs grow businesses aggressively and then continue to manage them in a similar way after flotation without delivering constantly improved results, institutional investors and analysts make known their discomfort. This was the situation experienced by Richard Branson, Anita Roddick and Alan Sugar, who bought back their shares after a honeymoon period in the City ended and share prices fell. It would not be difficult to imagine City investors losing patience with the charismatic Haji-Ioannou if profits, dividends and growth did not meet their expectations. However, EasyJet is managed by a highly experienced executive team with a strong airline and travel industry track record, while the board is packed with no less than five non-executive directors from illustrious backgrounds. Before the float, the key role played by Chief Executive Ray Webster was highlighted. Webster, a 54-year-old veteran of Air New Zealand, had been frustrated in his attempt to introduce the Southwest Airlines model between Australia and New Zealand and contacted Haji-Ioannou who needed professional air industry management expertise when forming EasyJet. It is clear that Webster has been responsible for the highly efficient operating management of the airline while Haji-Ioannou has created its public persona equally skilfully. Together, they represent a combination of entrepreneurial flair and management competence.

Future prospects – open skies or turbulence?

The EasyJet story has been extremely successful so far. Generally recognized as the 'best low-cost airline' within the industry, its combination of warm, informal image and efficient cost control has yielded good results. On the upside, the young brand image with its ubiquitous bright orange colour scheme and persona of Stelios Haji-Ioannou have led customers in search of bargain travel to flock to the airline. The opportunities for stretching the EasyGroup brand through EasyEverything cybercafés, Easy Rentacar and EasyMoney personal finance are apparent. The Virgin model can be followed by applying the consumer-cool brand values to separate businesses that have affinity for the customer.

Within the UK, chaotic rail and road transport management led to a sharp increase in commuter flying in winter 2000-1. EasyJet was not immune from the effects of bad weather when Luton was often closed by fog and snow although it proposed to run a 30-minute flight frequency between Luton and Glasgow, indicating the airline's appreciation of the potential for growth in this market.

The dispute with the loss-making Luton Airport reached an interim settlement in February 2001 when EasyJet conceded to the charge of £1.57 per departing passenger it enjoyed when it started flying in October 1995 being increased to £5.50, below the rate the airport wanted to charge. EasyJet accused Luton Airport of 'excessive' profiteering and started new routes from Amsterdam and Gatwick Airport, reducing its dependence on Luton.

It is clear that the UK domestic market is already very competitive but significant growth remains possible within mainland Europe. Ryanair is ahead of Virgin on routes between the UK and Ireland to Europe but by establishing operational bases in Geneva and Amsterdam, EasyJet signals its intention to achieve its targeted 25% year-on-year growth by flying a significant proportion of the new capacity on intra-European routes.

Destinations in Central and Eastern Europe such as Prague, Berlin and Warsaw are potentially popular but are currently served mainly by higher price carriers and could provide lucrative routes for EasyJet.

The potential downside for EasyJet should also be noted. The airline offers just one formula — the low-priced, no-frills advance booking. It could be compared with Kwik-Save — once a very efficient retail sales generator that was caught out by rising customer expectations. If a competitor offers higher service than EasyJet at a budget price, or if the formula goes stale and no longer matches public expectations, the airline could be squeezed. Orange could become a flavour of the month.

As an independent airline in an industry obsessed with scale, merger and global alliances, EasyJet is always vulnerable to action by its larger competitors, especially as they lose market share. Having survived and grown so far, despite the best efforts of British Airways, EasyJet has demonstrated resilience and together with Ryanair is financially sound as it prepares to pay for delivery of the $1120 m order for new aircraft due by 2004. By not controlling many of the variables that affect it, such as fuel costs, landing charges, taxes and Sterling/Euro exchange rates, it is vulnerable to fluctuation. However, saturation of the market's appetite for cheap flights shows no early signs of arriving, while any economic slowdown across Europe is likely to place higher-cost operators under even more pressure as travellers trade down to the no-frills operators.

For EasyJet, as for any airline, a constant threat is of vulnerability to service and safety problems. Operationally, the airline is perpetually on a knife-edge, with 30-minute aircraft turnarounds leaving no margin for technical or air traffic delays, and late departures are relatively common, more so than the 80% of on-time arrivals claimed by Ryanair. Such service problems are comparatively minor compared with the nightmare prospect of an air-crash which can eliminate a carrier's reputation in an instant, as People Express in the USA and train operator GNER experienced in the UK. Despite a few widely reported incidents, the airline enjoys a blemish-free record of safe operation that the arrival of new aircraft should help to continue.

It is clear that EasyJet can compete and grow effectively in relation to the larger airlines. Virgin Europe is not a serious competitor, while both Buzz and Go would require significant investment to become profitable operators of comparable scale. None of the efforts by larger airline groups — Virgin, KLM and British Airways — to enter the low-cost market have been successful. That leaves only Ryanair. EasyJet and Ryanair are now the two heavyweight, publicly quoted, and profitable low-cost operators in the market.

> *EasyJet and Ryanair are now the profitable low-cost operators in the market*

Both have ambitious growth plans of doubling their traffic by 2003, which they must fulfil in order to meet investors' expectations and to gain maximum return from the extra capacity of expensive new aircraft they have ordered. It is inevitable that their performance in growth, revenue, profits and share price will be compared.

Significantly, EasyJet and Ryanair have not yet competed head-to-head on any routes other than to Glasgow and Liverpool, unlike Go who compete directly with EasyJet on six European routes. There is potential for growth on separate, non-competing routes which divide the low-cost market between them but direct competition seems inevitable, although there is little scope for price cutting. So far, Ryanair has a longer track record of profitable growth and is larger, with more routes, planes, passengers and higher sales and profits. Ryanair is stronger on Irish and intra-European routes and significantly, is introducing 737-800 series planes which give 27% higher capacity and a greater potential profit margin than EasyJet's new fleet of 737-700s which offer no increase in seat capacity over the 300 series.

In EasyJet's favour, Ryanair's fleet overall is older, giving higher maintenance costs that are offset by lower financing charges. In mainland Europe, EasyJet generally flies to main airports which are more popular but more expensive, whereas Ryanair prefers more remote, lower-cost destinations. Both airlines are well managed with EasyJet undoubtedly having the edge in marketing flair and communication, although Ryanair claims to offer lower ticket costs. Both airlines use the same highly successful business model and provide essentially the same product.

Most of the larger and flag-carrying European airlines have been well managed in terms of systems, safety and customer appeal but they have relied on IATA and government protection for their success. EasyJet and Ryanair have shown that a low-cost operation, managed in a highly entrepreneurial way and based on price-led competition, can open up new markets and generate significant profits. Both companies fly people from point to point as efficiently as the more expensive airlines that have not been able to create new low-cost operations to match them.

Implications for strategic management

In summary, EasyJet is clearly an example of entrepreneurial management but what are the implications of the case for the theory and practice of strategic management? First, the modes of entrepreneurship and management can be recognized as working in synergy within the organization to create new value by stimulating and meeting customer demand in new ways, without the tension identified between the implicit values of each mode (Stevenson and Jarillo, 1990; Carr, 2000). The two modes are successfully integrated, with an entrepreneurial focus on customer attractiveness and rapid innovation in response to new opportunities, whilst managing the direction, processes, relationships and resources of the business organization. The characteristics of an entrepreneurially managed business which emerge from the EasyJet case are proposed in **Figure 1.**

Entrepreneurial working

The business has a strong **opportunity focus**, constantly searching to anticipate and identify potential opportunities by being close to its chosen market. It **innovates rapidly** to create and implement new business models, products and services that are presented as attractive buying propositions to stimulate the customer demand. The business behaves dynamically in the market, often

Entrepreneurial working

- Opportunity focus
- Rapid innovation
- Creating customer appeal

Managerial working

- Strategic focus
- Organizational synergy
- Managing resources
- Managing relationships
- Systematic value management

Creating new value

Figure 1. Entrepreneurial and managerial working.

being first to introduce change or responding swiftly and energetically to competitive or environmental threats. It uses new and existing ideas and technologies to engage the customer in new ways, to reduce costs and continually improve efficiency or service, while approaches that do not work are quickly rejected.

The business creates a strong **customer appeal**, using its own images, myths and stories to personalize the brand identity and using public media effectively to meld an affinity with its customer base, knowing that their loyalty is temporary and can quickly be lost.

Managerial working

The business is managed with a strong **strategic focus** through which the mission, strategic and operational goals and business values are tightly focused, interdependent, mutually consistent and communicated effectively. Staff enact the strategy and values through their everyday actions in managing the business. This connection between strategy and action was shown in the TV series 'Airline' which focused on EasyJet staff at work.

There is **organizational synergy**, coordinating and communicating effectively between all parts of the business. Hierarchy is minimal and people are empowered to make operational decisions, with self-managing teams and a no-blame culture of dealing with problems quickly as they arise. Attention is paid to **managing relationships** effectively within the organization and externally, with groups such as investors, suppliers, customers and government agencies.

The business focuses on capturing and **managing** people, financial and technical resources and those related to capacity, which are needed to grow the business and to meet customer demand. At the core of the business there is a robust economic model of **systematic value management**. This seeks to optimize demand, resources and profit through making pricing and cost-control decisions which enable the business to operate more efficiently in the marketplace than its competitors while offering 'best value' to the customer. Operational processes are robust, simple and designed to achieve maximum efficiency at least cost.

Creating new value

The result of entrepreneurial management is the creation of new value, which may take several forms. In the case of EasyJet, it is in the growth of a business that successfully creates and exploits a new source of customer demand. There is new value in the income stream from that business which would not otherwise have taken place, as well as in the value of the business itself through the price of its share capital.

> *The result of effective entrepreneurial management is the creation of new value*

Finally, it is proposed that although EasyJet can demonstrate effective synergy between entrepreneurial and managerial working, in organizational terms this is a dynamic and potentially unstable combination which depends for success on the ability to manage the interrelationships with the forces in the market environment. Thus the leading practitioners of one year may have lapsed by the next, depending on their ability to anticipate and respond to changing conditions in markets, technology and other factors. In the late 1990s, for example, the group of businesses operating under the Virgin brand would undoubtedly have been cited by most observers as leading exponents of entrepreneurial management, yet by 2001 the group was perceived to have slipped in both commercial performance and customer appeal. The test for EasyJet, as with other examples of entrepreneurial management, is whether it can demonstrate sustained creation of new value over time and in changing market conditions in line with its strategic intent.

Biographical note

David Rae is Director of Enterprise Development at the Derbyshire Business School, University of Derby. Before joining Derbyshire Business School in 2001 he successfully raised the profile and practice of entrepreneurial learning within Nottingham Trent University between 1996 and 2000. David holds a first degree in English and History from the University of Bristol and a MEd in Training & Development from the University of Sheffield. His pre-academic career included working in multimedia publishing, in a Government department responsible for training & enterprise and running a management development and consulting business. David's first book, *The Entrepreneurial Spirit: Learning to unlock value*, is published by Blackhall, Dublin (1999).

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