Easyjet and Ryanair flying high on the Southwest model: Charting the ups and downs of low-cost ca...
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Easyjet and Ryanair flying high on the Southwest model

Charting the ups and downs of low-cost carriers

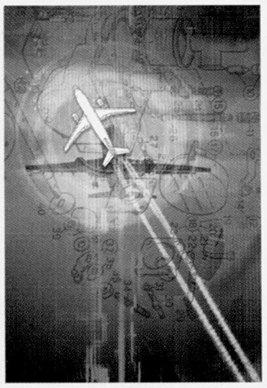
There was a time when the notion of commuting daily between Rome and London would have been considered far too timely – not to mention expensive! But today, for Italian financier Ettore Thermes, this is an everyday occurrence thanks to the advent of low cost airlines.

These cheap, no frills carriers have revolutionized the airline industry, making European and worldwide travel affordable for all and forcing the established brands to take a long hard look at their operations. There is no doubt that this low-cost model has been a resounding success. However, some airlines have experienced considerably more success than others.

Low-cost model

The first LCC to rival the major carriers was Southwest. Introduced in 1971 in the USA, this LCC implemented the original low-cost model comprising:

- low fares;
- high frequency flights;
- point to point service;
- no free meals or drinks on board;
- no seat assignment;
- short flights; and
- flights to secondary airports.



This approach is in line with Michael Porter's theory that there are three major strategies companies can adopt to gain competitive advantage:

1. Cost leadership – where an organization seeks to be the lowest cost producer by selling standard, mass products. This is where the original LCC model eminates.
2. Differentiation – where companies introduce a unique dimension that is considered to be important to the market. Some LCCs have moved onto this strategy.
3. Focus – this involves targeting a certain segment of the market and is rarely adopted by LCCs.

It was not until the 1990 that the European airlines started to catch up when easyjet and Ryanair entered the market. After this time there was a surge of competition as LCCs

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became commonplace. In Europe alone they have won 10 percent of the market share, and 25 percent of the domestic share has been gained in the USA.

Successes and failures

But while Southwest, easyjet and Rynair are good examples of successful LCCs, there are the experiences of carriers such as Debonair (which went bankrupt in 2000) and Buzz which was acquired by a more successful carrier in 2002. It is possible that these differences in fortunes are related to the type of strategy adopted, particularly in relation to the original low-cost model that Southwest introduced back in the seventies. For example:

- *Ryanair.* The strategy for this organization is the closest to the original Southwest model overall. Like most European flights it offers a point-to-point rather than a hub service, it has absolutely no frills (meals, seat allocation or frequent flyer program). It aims to turn flights around within 25 minutes and routes are consistently the shortest of all the LCCs. Interestingly, Ryanair is one of the most profitable low cost airlines in the market.
- *Easyjet.* Adheres strongly to the original low-cost model (74 percent overall). Like Ryanair it does not offer any frills and is also one of the most profitable airlines in Europe. It bypasses the travel agent mode of distribution altogether and offers a point-to-point service. However, unlike Ryanair it does travel to selected primary airports.
- *Southwest.* The original low cost airline is interesting because its strategy has changed in the 30 years since it was launched. Southwest now offers complimentary soft drinks, has introduced a frequent flyer program, and now flies transcontinental. Although its profit margin was not as strong in 2001 as Ryanair's, it is still a highly successful LCC.
- *Virgin Express.* This airline appears to have implemented a differentiation strategy in order to gain a competitive edge. It occasionally offers business class seating, its utilization rates are lower than most other LCC's and it almost exclusively flies to prime airports across Europe. However, in terms of profit, Virgin Express was the worst performer in 2001.
- *Spirit.* Another LCC that has adopted the differentiation strategy which includes a "with frills" option under the name of SpiritPlus. It also operates the longest flights among LCCs and do not adhere to the operational model that Southwest first adopted in any way. Like Virgin Express, this airline was one of the poorest profit-makers in 2001.
- *Frontier.* Of the ten airlines studied in 2001, this LCC was the furthest from the Southwest model. And although it was at the low end of the table when it came to profitability, it was not the lowest of the group.

Evidently there is some correlation between adherence to the successful, low-cost Southwest model and profitability. However, as Southwest has shown, this is not a hard and fast rule. This airline has continued to improve and grow while simultaneously introducing service features that will differentiate itself from other LCCs.

JetBlue's focus on service

It appears that this approach is also being taken up by another US airline, JetBlue. In a recent interview, Vice President of Sales and Marketing's Andrea Spiegel emphasized the need for service excellence at her airline. This has included the introduction of a corporate service (CompanyBlue) which offers a number of options without committing organizations to signing a binding contract. While JetBlue are still very heavily reliant on the web (part of the original low-cost model), the introduction of CompanyBlue demonstrates a move to differentiate itself on service quality.

Low cost travel, in whatever form, has clearly revolutionized the airline industry and is undoubtedly here to stay. And although environmentalists do not support this change (the rise in flights is increasing pollution daily and has been attributed to global warming problems), the increased competition has forced more established airlines to make some much-needed changes.

BA's response to the low-cost competition

For example, BA has reviewed its short-haul operations and is planning to spend the bulk of its marketing budget promoting these flights with a "price and value" message. Where BA refuses to cut back is on in-flight refreshments and business class seats. They believe that these services are expected by their customers and are not aiming to replicate the LCC model, preferring instead to focus on differentiation.

Chris Avery, an analyst at JP Morgan, believes that BA's response to the threats from LCCs has been ideal. They accepted the fact that they were no longer the world's number one and took steps to protect their core market while also learning from their rivals. BA was much criticized for selling Go to easyjet in 2002 but in hindsight this was the right move. The airline was never going to be able to compete directly using the low-cost model but could streamline its operations and offer a cheaper option which differentiated itself through the unique good service that BA is renowned for.

Only time will tell if this approach will ultimately be enough to keep the likes of Ryanair and easyjet at bay, but even if these LCCs do overtake BA in size and profitability, one thing is for certain. As long as the fares keep dropping and the volume of flights takes off, the real winner is always going to be the customer.

Comment

This is a review of "Ba.com uppance for no frills?", "Low-cost founding fathers", Ready for takeoff" by J. Chang and "Impact of the adherence to the original low-cost model on the profitability of low-cost airlines" by Alamdari & Fagan.

"Ba.com uppance for no frills?" is a brief commentary that looks at how BA is faring since the emergence of low cost carriers such as easyjet and Ryanair. It paints a positive picture about this established airline although does not rule out the possibility of it being overtaken by these new players in the marketplace.

Similarly, "Low-cost founding fathers" looks at how these LCCs have joined Europe more successfully than all of the EU policies put together. A quick but easy read.

Chang's interview with JetBlue's Sales and Marketing VP gives us an insight into one of America's top low-cost airlines. It is interesting to note how the focus of this carrier has switched from cost to service quality.

"Southwest now offers complimentary soft drinks, has introduced a frequent flyer program, and now flies transcontinental. Although its profit margin was not as strong in 2001 as Ryanair's, it is still a highly successful LCC."

"While JetBlue are still very heavily reliant on the web (part of the original low-cost model), the introduction of CompanyBlue demonstrates a move to differentiate itself on service quality."

By far the most interesting and in-depth article, "Impact of the adherence to the original low-cost model on the profitability of low-cost airlines" studies the major low cost carriers in 2001 and looks at how well they were doing and how closely they had stuck to Southwest's original low-cost strategy. The results provide much food for thought and would make any airline think twice about introducing additional extras to their services without carrying out a detailed cost-benefit analysis.

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