Teaching Fly-U-There Case Study in a day!

By chris sivewright

Chris Sivewright Teaching *Fly-U-There* **at St Helen's Northwood**

Introduction

This analysis is a tool to enable teachers to quickly teach the Fly-U-There case study – covering the whole Case Study in a day! All revenue is going to help those with **DYSTONIA** – see: www.dystonia-support4u.co.uk

Step 1 – 30 minutes

Split the class into three groups. Give each group a portion of the syllabus as shown below. Their task is to find in the case study where the syllabus applies.

Logic behind this: this will ensure the whole syllabus is revisited. It should also cover you if there are any unexpected questions. At the end of the 30 minutes you go through the syllabus and where it applies in the Case Study. This session also acts as a revision lesson. Their task is to put the line number and comment as to how that section of the syllabus applies to that line…

Unit 6: Corporate strategy

The aim of this unit is to develop students' understanding of:

- the links between sections of business studies
- how corporate strategy can respond to its external environment, ethics, and change
- the development of global strategy
- Corporate strategies for managing change.

At the end of the unit students should be able to:

- develop further skills of analysis and evaluation in a synoptic manner
- Assess the opportunities and constraints presented by the need to co-ordinate and balance all elements of business activity in order to achieve success.

Content	Explanation of content	Line	comment
1 **Responding to the external environment**			
Balancing objectives of various stakeholders and the objectives of the business	A critical understanding of the ways in which a business has to balance the various needs of the stakeholder whilst ensuring that it achieves its objectives.		
Changes in macro-economic variables	A critical understanding of the ways in which changes in interest rates and taxation affect the formation of corporate strategy.		
Changes in the level of economic activity at local, national and international level	A critical understanding of the strategies designed to take advantage of favourable changes in the environment or to reduce the problems resulting from adverse changes in the environment.		
The problem of seasonality	Analysis of the problems of seasonality in supply and demand and the ability to devise strategies to cope with the problem.		
2 **Developing a global strategy**			
Export opportunities International competitiveness and entry into international markets	Analysis of opportunities in overseas markets and a critical understanding of strategies to succeed in overseas markets. (An ability to suggest strategies **will** be required.)		
European Union: EMU	A critical understanding of the major trade aspects of the EU on corporate strategy, including the Single Market and EMU.		
Multinational corporations	A critical understanding of the nature and problems associated with multinational corporations in a global economy from the perspective of consumers, employees and the state.		
Content	**Explanation of content**	**Line**	**comment**

3	**Responding to social responsibilities and ethics**		
Social responsibilities	A critical understanding of corporate responsibilities to stakeholders.		
Business ethics	A critical awareness that changes in culture and ethics create opportunities and challenges for business.		
Environmental considerations	Analysis of the impact of environmental consciousness (including pressure group activity) on corporate strategy.		
Social and environmental auditing	A critical understanding of the nature and purpose of social and environmental audits.		
Market failure	An understanding of market failure, especially in relation to merit goods, demerit goods, external costs and benefits and labour market failure. Government action to correct market failure. Analysis of the case for, and nature of, government action to correct market failure and its effects on corporate strategy.		
4	**Strategic decisions**		
Mergers and acquisitions	Analysis of the benefits of, and problems resulting from, external growth of business organisations. Analysis of directional growth – vertical, horizontal and conglomerate mergers.		
Generic strategies	The achievement of synergy, using appropriate techniques of analysis such as Ansoff's matrix. A critical understanding of generic strategies identified by writers such as Porter.		
Product positioning	A critical understanding, and construction of, position maps as an aid to identifying gaps in the market.		
5	**Corporate and organisational culture**		
Corporate culture	A critical understanding of the nature and types of		

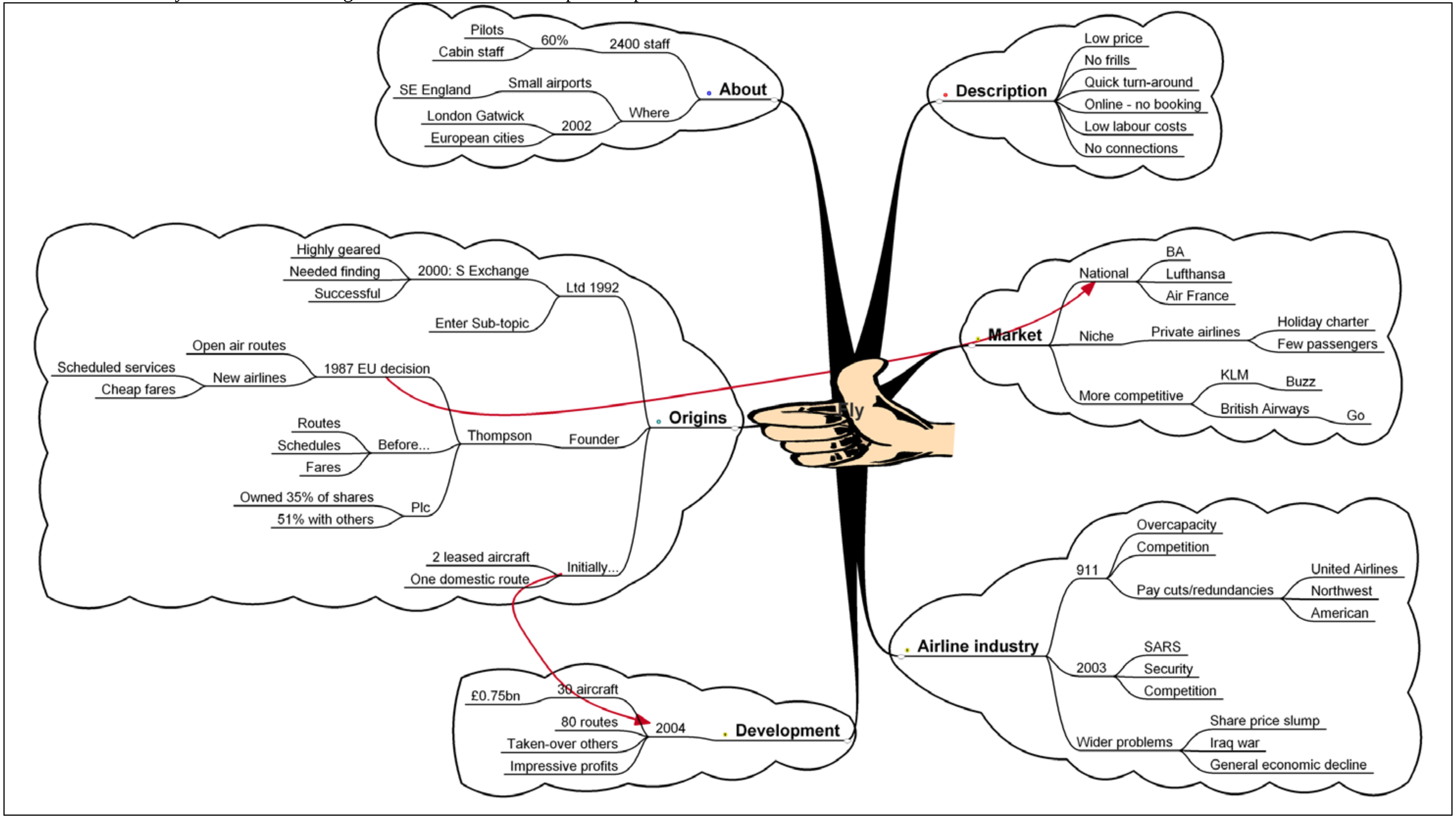
	corporate culture.		
Organisations, culture and objectives	A critical understanding of how culture reflects, and is reflected in, the objectives, the process of decision-making and behaviour in the organisation.		
Organisational behaviour	A critical understanding of their role and their response to the needs of the organisation in times of change.		
Information management systems			
Leadership styles in relation to organisational culture and motivation	A critical understanding of and evaluation of this inter-relationship and its consequent effect on corporate culture.		

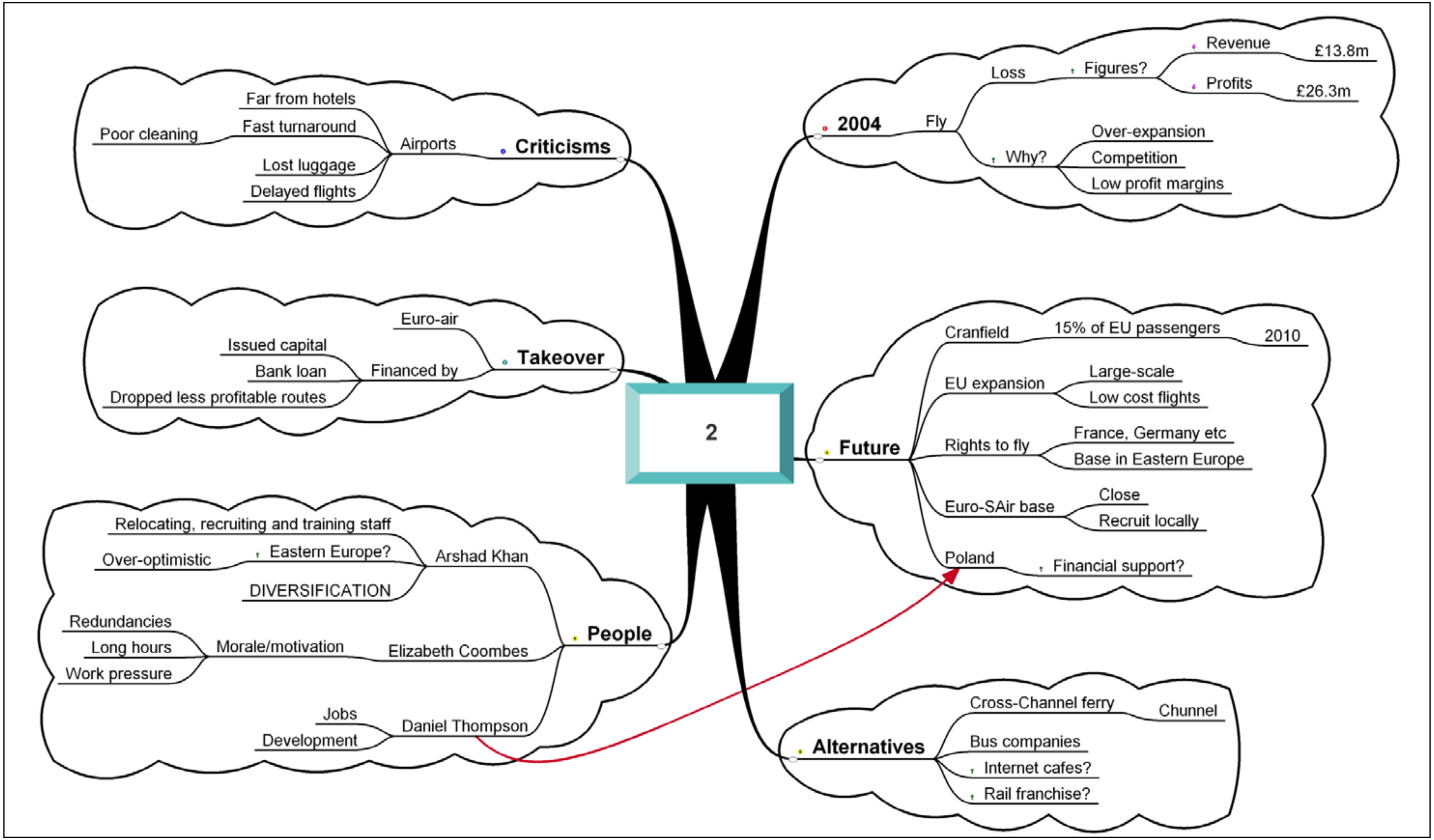
Content	Explanation of content	Line	comment
Management of change			
Origin of change	Analysis of why change is needed in business organisations, its consequences, why and how it is resisted and management strategies to encourage its acceptance.		
The nature of change	A critical understanding of the internal and external factors which necessitate change in corporate strategy.		
Necessity for change	A critical understanding and evaluation of the effects of change on corporate culture.		
Resistance to change	A critical understanding of how and why change is resisted and the formation of management strategies to implement and encourage change.		
Strategies to			

overcome resistance to change			

Step 2: Mind Mapping the Case Study (Time: 1 hour)

Mind map the Case Study. Two sections: 1-50; 50 onwards. Split the class into two and each Mind Maps part of the case study. They then change groups so each group has the whole case study which is then amalgamated into one Mind Map. Example shown below





2
Criticisms
Airports
Far from hotels
Fast turnaround
Poor cleaning
Lost luggage
Delayed flights
Takeover
Euro-air
Financed by
Issued capital
Bank loan
Dropped less profitable routes
People
Arshad Khan
Relocating, recruiting and training staff
Eastern Europe?
Over-optimistic
DIVERSIFICATION
Elizabeth Coombes
Morale/motivation
Redundancies
Long hours
Work pressure
Daniel Thompson
Jobs
Development
2004
Fly
Loss
Figures?
Revenue
£13.8m
Profits
£26.3m
Why?
Over-expansion
Competition
Low profit margins
Future
Cranfield
15% of EU passengers
2010
EU expansion
Large-scale
Low cost flights
Rights to fly
France, Germany etc
Base in Eastern Europe
Euro-SAir base
Close
Recruit locally
Poland
Financial support?
Alternatives
Cross-Channel ferry
Chunnel
Bus companies
Internet cafes?
Rail franchise?

Step 3: Resources for strategy

The purpose of this section is to use external resources to enable students to comment on the strategy used. This could be set as homework and/or use the resources here.
Time: 1 hour

Comment on the strategies available to Daniel Thompson

Traditional airlines are making progress online in their battle with 'no-frills' rivals, according to new research.

Hitwise data for the top 10 no-frills airline websites reveals that visits by UK consumers have increased by 12.5% over the past year. However, the broader Commercial Airlines sector, which includes both traditional and no-frills carriers, has outpaced this growth, with an increase of 19.4% year on year.

The difference in growth is attributable, the company says, to the ever-increasing competition for direct bookings online. In the past 12 months, Hitwise added 44 websites to its Commercial Airlines sector, a 27% growth in the number of websites compared with last year.

Also, it says, the improved online customer acquisition strategies of the traditional carriers has drawn increasing numbers of visitors. By better utilising the web through, for example, country specific websites, search marketing, partnerships and affiliate networks, the traditional airlines have clawed back ground. This has resulted in more UK consumers being attracted to a larger range of websites. British Airways' announcement this week of its financial year results backs this up, with more than 50% of its short-haul leisure flights being booked online.

Hitwise UK general manager Simon Chamberlain says: "It was inevitable that the traditional carriers would respond to the competitive threat of the no-frills airlines. By studying the online customer acquisition strategies and business models of the likes of EasyJet and Ryanair, companies such as British Airways look to be making up some lost ground. With visits to the online travel industry growing another 27% in the past 12 months, consumers are clearly responding to the flexibility and price transparency that the Internet brings to their travel plans."

In terms of the most popular no-frills airlines, easyJet (www.easyjet.com) is the market leader, accounting for over a third of all visits to the custom sector, followed by Ryanair (www.ryanair.com), which receives a quarter of visits, and BMI Baby (www.bmibaby.com), which saw one in 10 visits to the custom sector.

Source: http://www.netimperative.com/2004/05/19/RESEARCH_Airlines

In Europe, no-frills travel accounts for only 5% of European air travel, but it is likely to grow to claim a 12-15% share in the next decade. The low-cost carriers - Easyjet/Go, Ryanair, Buzz and the US airline upon which they are based, Southwest Airlines - are all therefore preparing to raise their game still further. Ryanair's growing ambitions, for example, are demonstrated by the order for 100 Boeing 737s placed in January. Easyjet, meanwhile, is looking at a potential order for 75 new aircraft and has been talking to both Airbus and Boeing. The Luton-based airline's strategy is also to seek acquisitions. In the wake of Go, it has also taken an option to buy British Airways' ailing German subsidiary, Deutsche BA. That bold move could give Easyjet a head-start on Ryanair in the valuable German market, which - unlike the now saturated low-cost sector in the UK - is ripe for low-cost airlines.

But these rapid expansion plans also pose major challenges for the low-cost sector. The main test for Ryanair and Easyjet will be managing this growth lest it expand too fast, too quickly. Going from a fleet of 41 to one of more than 100 will bring Ryanair its own problems. In Easyjet's case the dual acquisitions could reduce the risk of safety issues that might arise from adding too many aircraft and pilots too quickly. Nonetheless, integrating the new fleet and staff will inevitably cause friction. Furthermore, despite serving the extreme price sensitive part of the market, low-cost airlines will also need to be careful not to take their passengers for granted. With bigger and bigger fleets and more routes, bases and profits there is a limit to how long the low-cost carriers can successfully play the underdog.

Ideally, the low-costs want the big players' size, frequency and geographical spread without their hideous costs and levels of management. Even so, it is easy to forget that some of those costs are there for very good reasons. Safety, for one. While there is no evidence to suggest that low-cost means less safe - Southwest Airlines has had only had one major accident and no fatalities so far in its 30-year history - any low-cost incident might be seized on by the media as evidence of corners being cut.

The low-cost carriers will find that they will need to develop a robust crisis management strategy and start participating in more industry forums on safety, security and infrastructure the larger they get. The message is one of convergence. As the low-cost outfits get bigger, their established rivals ape their techniques.

Source: http://news.bbc.co.uk/1/hi/business/2038192.stm

The Airlines' Five Worst Mistakes

In total, there are five reasons why the traditional carriers are spinning in a death spiral down into bankruptcy at present. They are stunningly obvious and simple. They did (and still are doing) five things wrong :

- They increased the spread between discounted fares and full/business fares. Only a few years ago the spread from highest to lowest fare was a factor of three, but when the airline industry collapsed, the spread had widened to six to one. At the same time, discount carriers have been narrowing the spreads between their highest and lowest fares.
- Secondly, while increasing the cost of unrestricted fares, they reduced the benefits associated with full fares, making the so-called 'no frills' airlines more and more attractive on a service (as well as cost) basis.
- Thirdly, they pretended that the new low cost carriers such as Southwest were not 'real competitors'. Rather than learn from and respond to these airlines, they ignored them and what they implied about their customers' real needs. But now, the discount carriers that the majors used to laugh at are worth very much more than the former 'majors'.
- Fourthly, they have allowed the hassle factors and time costs of air travel to make it cheaper, more pleasant and quicker to travel longer distances by car not plane. The airlines estimate that security hassles alone will cost them $2 billion in lost revenue in 2002, but are spending none of their own money to help solve these problems - how stupid is that?
- Lastly (and it might well be the last thing that some of them do as they go into potentially terminal bankruptcy) they insist that the only cure to their problems is to cut back on services, cut back on staff wages, and to increase fares, way beyond the point that anyone will pay for. Their competitors - the lower cost airlines that are stealing massive market share - are succeeding by doing exactly the opposite - increasing the quality of their service while reducing their fares!

Lessons from the Real World

Now for a lesson from the real world - the place that airline executives never seem to inhabit. These days the service on Southwest is generally better than the service on a so-called 'full service' airline. By taking away every possible perk of 'full service', and while allowing (or, it seems, encouraging) surly service and an anti-customer attitude to pervade every level of their organizations, the big airlines have nothing left in their favour, except, perhaps frequent flier programs. But they're even strangling the benefits of their frequent flier programs by making qualification to premium levels harder, making redemption more difficult, and adding fees to what should be fully free award tickets.

In comparison, the lower cost airlines are looking better and better. Anyone who has ever experienced Jet Blue's planes, cabin crew, and ground staff will tell you for as long as you care to listen how amazing this carrier is. Better planes, better seats, better service, better fares - better everything. You'd be nuts to fly any other carrier if Jet Blue has a comparable schedule and fare.

And so what do the major carriers do? Do they say 'we need to urgently respond to this new high service/low cost marketplace paradigm'? No! Instead they say 'we're going to cut back on our service even more. We're going to operate fewer flights and longer connections. We're going to increase our fares, and we'll make flying with us even more miserable than it already is.'

And so, you, the abused travelling public - but blessed with a ton more sense than a roomful of airline executives - do the obvious thing. You cut back on your flying. You refuse to pay ridiculous fares with no associated benefits. You switch to decent airlines with decent fares and decent service.

Continental's Trivial Pursuit

Here's another example of the difference in approach. Last week low cost/high quality Spirit Airlines announced it was increasing and improving its First Class service. (Spirit is the airline that allows you to change the name to someone else on a ticket, something the major's claim would be impossible to allow!)

At the same time, Continental said that it is cutting out more customer service items - for example, there will be no more plastic knives served with breakfast trays in coach class. This will save the airline potentially $85,000 a year. Continental had gross income of $8.15 BILLION dollars in the last twelve months - can you believe that they are obsessing over an item that is one thousandth of one percent of its income?

Is this the most important vital step they can take to return to profitability?

Is there nothing more valuable or important that Continental can focus their oh so highly paid management attention on (CEO Gordon Bethune's weekly earnings, in 2001, were almost exactly equal to this new savings)? Well, yes, unfortunately there is. No longer will you automatically get an entire can of soda if you ask for a drink! You'll only get a small glass of soda (more available on request - if you're lucky).

Southwest Redefines 'A Fair Fare'

And while traditional airlines are desperately seeking to increase fares, adding on surcharges, and cutting back on 'waivers and favours' to preferred fliers and travel agencies (most recently United, this Thursday), guess what Southwest did last week? Southwest reduced their no advance purchase one way fares, across the board. Effective immediately, their most expensive fare is no more than $299 each way (down from a previous maximum of $399). Senior VP of Marketing, Joyce Rogge, said 'we're saying that if you pay more than $300 each way, you're paying too much.'

And, showing that some airline executives do still live on Planet Earth, she added 'You shouldn't have to charge higher fares to your customers in order to offer them the level of service they deserve every day. We consider "service" to be a great selection of frequent flights to 59 destinations, an ontime arrival, low everyday fares, an extremely lucrative frequent flyer program, the convenience of online booking, and Customer Service delivered with warmth and a smile. You shouldn't have to pay an arm and a leg for that.' (By the way, consistently profitable Southwest can still afford to pay travel agent commissions, too!)

If Joyce Rogge ever wants to run for President of the United States, under any party banner, she's sure getting my vote! Maybe she'd be a good CEO choice for United Airlines?

Inevitably, the major carriers have selectively matched Southwest's new fares on some of the routes they fly on, but if it isn't a route that they are actively fighting Southwest for, their old enormous fares remain in place and unchallenged.

Lessons Lost on the Majors

Yes, these lessons are lost on the major carriers. They continue to nickel and dime their customers and their travel partners any which way they can, while not realizing that the penny they save is losing them a dollar in revenue. For example, most of the majors have now started charging if you try to check a third piece of baggage. Formerly it was common that you could check two bags and take one carryon with you, or check three bags and have no carryon. Now a third piece of checked luggage will cost you $40 or more each way (and, of course, with draconian airline security, more people are having to check rather than carry on items).

The airlines are charging even more for paper tickets. Most airlines now charge you $20, and they are now trying to up that charge to $25. There is no way that this is an honest cost recovery on the part of the airline - honest cost recovery for what should be a totally automated task would suggest a fee of maybe $1 or at the most $2 (how much does it cost a theatre to print a ticket to a show?).

And, to add further insult to travel agents, Continental will charge $20 if a travel agent issues you a paper ticket (this was formerly a no cost item allowed by all the airlines). Continental claims that this fee is to recover their costs of the travel agent issuing the ticket (and what costs exactly would those be, I wonder!!!) and what makes this charge absolutely ridiculous is Continental requires the travel agent to write out a laborious and usually manual charge form (which will be costly for the airline to process) to record the fee paid each time.

The Ugly Bottom Line

Value for money. High quality product. Good customer service. Really simple concepts - Business 101. The low cost carriers understand them and profit from their application, same as any other well run business does.

But the major carriers have turned their back on these concepts.

Their only hope to return to profitability is to improve their service and the value of the product they wish us to purchase, not to fatally destroy it.

Source of extract: http://www.thetravelinsider.info/2002/0830.htm

Flamingo Airline
Will the low-fare strategy work?

When hunting for a cheap flight the first choice for most people is a budget airline's Web site, but that may soon change as major carriers fight back online, armed with mixed offerings of lower prices and higher standards of service. Under siege from no-frills carriers, many world-class Airlines like Kenya Airways, KLM Royal Dutch Airlines and British Airways are attempting to change their image as expensive airlines and convey to a skeptical public the advantages of the full-service model.

Struggling from a slump in demand for long distance air travel caused by sluggish economies, the September 11 attacks, and corporate budget cuts, the traditional airlines are cutting costs and overhauling unprofitable short-haul routes. Flamingo airline, a wholly owned subsidiary company of Kenya Airways, is the biggest no-frills service in the region. Assuming the role of the Kenya's domestic carrier of choice, it offers an efficient value for money service, a market driven schedule and a reliable product. In order to offer customers the lowest fares in the market it is essential that the company cut its internal costs as far as possible, however not compromising on the quality of its services. The company has achieved this goal in a number of ways: first, its aircraft, the SAAB 340B turboprop is more economical in fuel consumption and direct operating costs. Secondly, the company has leased the Beechcaft 1900 for its Lokichogio route and a Gulfstream for its Eldoret and Lamu routes. A further cost-cutting move takes the firm to the internet, which it uses to lower operating costs by reducing ticket distribution and staff costs and wiping out the commissions paid to travel agents. Currently there is one in-flight attendant per flight, which according to Johan Borstlap, the company's Chief Executive, is in strict accordance with safety regulations. This has kept the company's staff head accounts to a bare minimum, although this has received outcries from Kenya Association of Travel Agents, KATA. "We have moved away from the expensive global airlines reservation system to our own reservation system that will help us cut costs considerably", says Mr. Borstlap. Budget carriers can make city-to-city routes pay by paring costs to the bone and slashing ticket prices to ensure full capacity.

Some critics posit that budget airlines rely on a public perception that they offer cheaper fares all the time when compared with the major carriers. They also maintain that if you want to book a low-cost airline two days before departure the price is no different from the major carriers, and that some of these cheap fares put out at the beginning create that strong image that this is low fare. They are low fares but they are not all the time. Flamingo airfares are low indeed. A return trip to Mombasa costs about Ksh2000. This can be direct substitute for a personal limo-drive, which costs even more. As major carriers make their profits from long distance flights, particularly from business travellers who often book just days before they fly and pay higher prices, flamingo airline is eating into scarce revenues on shorter flights at a time when the big airlines are suffering a recession in their less price-sensitive business markets. There are people who are purely price-sensitive and those that look beyond price to other elements of the service package. While other carriers are reeling, flamingo air is piling up profit and there is a better future prospects for growth. The reason for the success of flamingo air is partly economic. In a downturn, passengers of course flock to low fares. But profits don't naturally flow from rock-bottom prices. To make money, the budget airline is outperforming their larger rivals. It has used circumstances and opportunities to rethink Southwest Airline's decades-old low-cost template, adding technology and some creative thinking to uncover new revenue streams, master yield management, and minimize time on the ground. Analysts see the airline growing by 20 to 25 percent annually over the next five years.

The notion of low-cost airlines is hardly new. People Express has been out of business longer than it existed, but it lives on in the minds of many for the way it slashed fares and kept customers lined up for hours in a quest for an unassigned seat. Founded in 1980 with a handful of planes, People Express quickly grew to become the fifth-largest commercial carrier in the US, with 4,000 employees and more than 70 aircraft. But it never saw much in the way of profits - primarily because it suffered from high labour, marketing, and maintenance costs - and as it expanded, things only got worse. Nevertheless, the failure of People Express wasn't a failure of the low-cost concept. Today's budget carriers enjoy two important advantages that People Express never had - the Internet and some lessons gleaned from the rise of Southwest Airlines. Southwest Airline existed in the early '80s, but only as a niche carrier. Since then, it has applied a simple, inexpensive template to become the fifth-largest airline in the US. Its strategies were; fly one class of jet (to save on parts and training), into secondary airports (to save on the large slotting fees charged at bigger airports), and forget about catering (to save meal costs and time on the ground). And the model still works. Southwest continues to do well in the face of its rivals, and it has even inspired competitors in the US, most notably the 2-year-old JetBlue, which turned a profit in the third quarter of 2001.

Restructuring needed
Over the next 18 months, a whole tier of middle ranking carriers, such as KLM, Alitalia, Sabena and Aer Lingus, could lose their independence or disappear altogether. Their routes will be greedily scooped up by budget carriers. The cozy world of the small, state-protected, national flag carriers is likely to disappear forever. Flamingo chief executive Johan Borstlap believes restructuring the region's fragmented air market is long overdue. It is the only way, he argues, that the aviation industry can compete globally. The tragedies of 11 September have the potential to push along the process of market consolidation quite dramatically and Flamingo Airline is taking a sensible line, recognizing that consolidation has to take place at the right time.

Future shape of market
Johan Borstlap echoed many in the industry when he predicted the future shape of the air market in the region. According to him there will be the big two, Kenya Airways and British Airways, and two or three other budget carriers, of which Flamingo will be the leader.

Source: http://www.mi.co.ke/business_and_finance/corporate_strategy/flamingo_airlines.asp

Step 4: answering questions

These are simply short questions for class discussion. **Time:** 30 mins

Short answer questions

1. Are there any disadvantages to the non-allocation of seats?
2. How can labour costs be kept to a minimum?
3. Why was the company floated?
4. What is a niche market and what are its characteristics?
5. When airlines compete by dropping prices, do consumers gain?
6. Suggest possible strategies available to airlines in the wake of 911
7. What assumptions is the Cranfield University study likely to have made?
8. Why is the low-cost airline market predicted to continue to grow i.e. what factors affect it?
9. Arshad continually tries to drive down unit costs. Is this always an advisable strategy?
10. Why is the Polish government hesitant about providing financial support?

Step 5: BIG questions

This section is to encourage pupils to **THINK**. Resources are given for deeper discussion. **Time: 2 hours**

Evaluate Arshad's strategy of diversification.

easyJet reports full-year trading profits of £96m on revenues of £932m

easyJet plc, Europe's leading low-cost airline, today reported record full-year results for the financial year ended 30th September 2003, comfortably in line with expectations.

Highlights of the results include:

- Revenue up 69% to £932m
- Profit before non-trading items, goodwill and tax up 7% to £96m, supported by a strong second-half performance
- Profit before tax down 28% to £52m, reflecting the Iraq conflict in the first half of the year and a number of one-off costs associated with the DBA option, the integration of Go and the accelerated depreciation of aircraft
- Passenger numbers up 79% to 20.3m
- Ancillary revenue doubled to £52m
- Strong load factor of 84% maintained
- Cost per ASK reduced by 7.5% (before non-trading items, goodwill and tax)
- Average fare of £43.28, 6.7% lower than previous year
- Faster integration of Go-Fly and at lower cost than expected
- Earnings per share before goodwill amortisation of 12.7p (down from 15.5p)
- £335m cash on balance sheet
- 21 new routes introduced into service
- First Airbus A319s successfully introduced into the fleet (21 to be introduced in the current year).

easyJet Chief Executive, Ray Webster, said:

"This has been a year of two halves. Despite a challenging first half characterised by extremely high growth and external pressures (the Gulf conflict and economic uncertainty), we saw a return to strong profits in the second half as a lower rate of capacity growth and improved economic environment both helped to produce a profit before non-trading items, goodwill and tax of £96m.

"These are encouraging results, which demonstrate the popularity of our business model, in one of the most difficult years in our industry with revenues up, passengers up, profits before non-trading items up and unit costs down. "In the current financial year, we are planning capacity growth in the order of 20%. Although there remains a degree of uncertainty, the economic environment is improving and is substantially better than at this time last year. Our business model, based on low-cost and convenience, has shown its resilience and I am cautiously optimistic about our performance in the current year."

Source: http://www.easyjet.com/en/news/20031118_01.html

Look at Appendix 1 and the article above. Fly-U-There is doing badly when compared to Easyjet. Suggest reasons why.

Despite those results, complacency can never be a feature of our business and we are dealing with five key challenges. The first of these, affecting all airlines, is the price of oil which constituted some 14% of our costs for the year ended 30 September 2004.To offset this, we are concentrating both on operating the most fuel efficient aircraft and reducing costs elsewhere. However, easyJet's returns will be adversely affected if there is not some abatement of the price of oil during the coming year.

Increased competition, the second challenge, continues and all of our planning assumes that this will be sustained for the foreseeable future. We will continue to offer an attractive product to our marketplace and, as these results have demonstrated, many people have a preference for our combination of price, frequency, on time performance, convenient airports for both departure and destination, modern equipment and courteous and efficient staff. easyJet has benefited from remarkable rates of growth since its beginnings.

The Chief Executive's report emphasises our attention to developing new destinations and intensifying operations in these. Aligning the rate of growth of our capacity to the clear market opportunities is the third of our major challenges.

Our fourth key issue is volume. With the number of passengers we now fly, any small movement in revenue per passenger can have a significant effect on our results. Unrelenting attention to cost reduction and revenue enhancement are the watchwords of easyJet in meeting this challenge. Judging the levels of external influences, which are out of our control, can be difficult and, as a consequence, while easyJet's performance showed a clear improvement on last year, it was not as good as we had originally hoped for.

We strive to keep shareholders informed of change and believe this is our fifth challenge.

During a year when most airline companies suffered a fall in returns or in some cases registered losses, easyJet was one of the very few which increased profit before tax and earnings per share by 20.8% and 25.5% respectively. Passenger numbers and load factors also increased, as the Chief Executive's report shows. At a time of intensifying competition, this performance serves to underline the inherent strength of easyJet's business model.

Source: EasyJet Annual Report 22 November 2004

Does Fly-U-There face the same challenges? How is it likely to deal with them?

"*In 2004 Fly-U-There took over EuroAir, a continental low-price airline based in France…*" (Line 75)

Why did it do so and was the takeover a wise cause of action?

Fly-U-There became a plc. Will this make any difference to its strategy?

Outline the main economies of scale available in the airline industry.

Tuesday, 15 October, 2002
The high price of low-cost airlines

Booking a low-cost flight is seldom as cheap as the headline figure, with taxes, handling fees and surcharges. But there's one fee you won't find on your ticket - the cost to the planet.

Cheap air fares have broadened our travel horizons and spawned a trend for weekend breaks in exotic locations, but for the environment it is proving a nightmare.

☐ **Burn rate:** Air travel produces more carbon dioxide per km travelled for each passenger than car travel

☐ **Passengers:** Numbers passing through UK airports expected to double to 400m by 2030
☐ **Expansion:** Plans are afoot to expand Britain's airports and maybe build new ones, but firm decisions have not yet been made
Source: Aviation and Global Climate Change report

Air travel is growing globally at about 5% a year and by 2030 the number of Britons flying is expected to more than double.

At the forefront of this revolution are the low-cost, no-frills carriers such as Ryanair, Easyjet and Buzz, which are growing at a phenomenal rate. In June, Easyjet passenger numbers were up more than 50% on the same month last year. Ryanair increased by 34% and Go saw an incredible 72% rise. The lesson learned from these airlines, especially post-11 September, is as clear as it is simple - the cheaper your fares, the more people will fly. The result has been a price war which has sucked in flag carriers such as British Airways.

But if air travel is allowed to grow unchecked in this way, it will spell disaster for the planet, say environmentalists.

- More flights mean bigger, busier airports, which in turn means more noise and growing problems with air quality for those who live and work close to airports.
- But perhaps the biggest concern is the effect on global warming. Burning aviation fuel releases carbon dioxide (CO_2) into the environment, causing the Earth to heat up. And aircraft burn a lot - one return flight from the United Kingdom to Florida produces, per passenger, as much CO_2 as a year's driving by the average British motorist, according to environmental campaign groups.
- Flying also releases nitrogen oxides and sulphur oxides, and even the vapour trails - contrails - left by planes are thought to be a hazard. It's been suggested that they add to the insulating effect of cirrus clouds on our climate.

The problem for environmentalists is that while efforts are being made to cut CO_2 emissions from cars and industry, nothing is being done to rein in the airlines. While travellers in the UK do pay an Airport Passenger Tax, there is no tax on aviation fuel, which allows airlines to be wasteful. Also, no VAT is charged on airline tickets.

The situation is unsustainable, says Simon Bishop, who is about to publish a report on sustainable aviation.

"Lower prices have raised people's expectations - we now all want to fly abroad for a short break, and do so several times a year. But the government is doing nothing to inform people of the environmental impact of flying," says Mr Bishop, of the Institute of Public Policy Research. The tax advantages mean that, in effect, the aviation industry is being subsidised to the tune of about £6bn a year in the UK, he says.

In 1992, 3.5% of global warming was attributed to flying, yet by 2050 the UN thinks this will rise to 7%. Optimists, including Easyjet, pin their hopes on technology to make planes more efficient.

Source of extracts: http://news.bbc.co.uk/1/hi/uk/2327487.stm

With reference to the external environment does the article above offer an opportunity or present a threat to Fly-U-There plc?

Overview

Earnings per share for the year were 10.34 pence (2003: 8.24 pence). The year demonstrated the resilience of easyJet's business model, particularly in a challenging environment for the airline industry. Despite difficult market conditions, easyJet's point-to-point low-cost short haul network, connecting major and convenient European airports, has continued to attract business and leisure travellers alike, with our load factor rising from 84.1% in 2003 to 84.5% in 2004. During the year, there have been increasing numbers of entrants into the low cost airline marketplace in Europe. There are now at least 47 low cost airlines in Europe, compared to only seven three years ago. This is clearly not sustainable in the longer term, and we expect consolidations and liquidations – indeed these have started to appear in recent months. The key success criteria will be to have the lowest cost base between any two airports and to repeat this again and again. Our strategy ensures that our cost base is amongst the lowest in the industry.
Increasing levels of overall competition have led to falls in yield from £43.28 in 2003 to £42.28 in 2004. However, costs have been kept under control through careful management and identification of strategic cost reduction opportunities. Cost per Available Seat Kilometre ("ASK") fell from 4.19 pence in 2003 to 4.04 pence in 2004, or on an underlying basis, was level yearon- year (3.97 pence in 2003 to 3.95 pence in 2004).
With the increasing load factor offset off by the decline in average fare, total revenues grew 17.1% to £1,091.0 million. The number of passengers rose 19.7% to 24.3 million. Over the year, ASKs were 25,448 million (2003: 21,024 million), with the average sector length up 1.7% to 884 km. Revenue per ASK was down 3.2% to 4.29 pence.

Strategy and business model

During the year, the management reviewed with the Board the implementation of easyJet's strategy and made changes to ensure that the business remains well-positioned in an increasingly competitive marketplace. The business model however required no change. It is tried and tested and has withstood the challenges of this difficult year. Capacity growth is a lever that we can use to influence our profitability in the face of increased competition. We have announced that our 2005 capacity growth rate, measured by the number of aircraft in the fleet at year end, has been reduced to 17% (an increase of 16 aircraft). It is likely that the growth rates for 2006 and 2007 will also be lower, reflecting our ability to flex capacity according to market conditions. Being mindful of the business environment, our strategy has three cornerstones: "focus on our customers", "own our markets" and "reduce our costs".

Focus on our customers
We know what our customers value, and we design our core product and ancillary services accordingly. Every year, we aim to create better value for our customers, whilst decreasing our costs to maintain or improve competitiveness.

Own our markets
We will develop and aggressively defend our chosen markets against competitors. This means quickly establishing a strong base, offering numerous routes with multiple frequencies to existing and new points on the network, and establishing a strong brand in the market.

Reduce our costs
Management is focussed on increasing the operating margin. We will continue to challenge industry norms and further reduce our cost base through being highly productive, innovative and taking advantage of our scale and local knowledge in procuring goods and services. For example, in the coming year we will see benefit from the increasing number of Airbus A319s in the fleet, and an increase in both fleet utilisation and crew productivity. We will withdraw capacity from any existing markets that are poorly performing or airports which are over-priced and do not meet our strategy. We have already taken action in this regard by removing Zurich from our network and reducing capacity at Copenhagen and Amsterdam.
I am confident that this strategy will bring clarity and focus to the efforts of our people and will provide easyJet with its unique strength to become best in class, with a leading position in the growing European air travel market.

Network

We have continued to develop the network during the year in a manner that absorbed the 18.4% growth in new capacity, measured by sectors operated, without affecting operational performance. At 30 September 2004, the easyJet network covered 153 routes and 44 airports, compared to 105 and 38 at the same time last year. Three routes ceased operations in the year due to excessive airport costs. During the year, we have added six new cities to the easyJet network: Basel, Berlin Schönefeld, Budapest, Dortmund, Cologne-Bonn and Ljubljana. Berlin and Dortmund are new bases and demonstrate our commitment to the German market. From Berlin we have started 13 routes during the year. In addition, at Berlin, we have worked closely with airport management and now have a dedicated easyJet branded terminal, which will become a model for our future development across Europe. We started eight routes from Dortmund and four from Budapest in the year, which we expect to generate more than 1.5 million extra passengers during the first year of operation.

Source: EasyJet Annual Report November 2004

From the extract from EasyJet's report, what business model and strategy should Fly-U-There plc adopt?

Here you'll find various analyst reports highlighting the key drivers and metrics behind Ryanair's success:

- *Volume Growth*
- *Cost Containment*
- *Cost Per Passenger*
- *Passenger Growth Forecast*

Source: Ryanair.com

Are these cost drivers the same for Fly-U-There plc? How can Fly-U-There reduce costs?

According to Porter, the five competitive forces affecting an industry are: threat of entry, competitive rivalry, bargaining power of suppliers, threat of substitutes, and the bargaining power of buyers. Let's use the airline industry as an example of how an analyst may interpret the competitive forces that affect an industry.

Threat of Entry

The threat of new entrants presents the possibility that new firms will enter the industry and diminish industry returns by passing along value to buyers in the form of lower prices and raising the cost of competition. Factors that determine the threat of entry include capital requirements, economies of scale, switching costs, and brand value. In the airline industry, access to capital is plentiful. Banks extend credit to airline carriers, and the debt and equity markets provide alternatives for raising funds. Because it's relatively easy for weaker airlines to obtain credit, the industry has become saturated.

Brand identity is important in the airline industry, and benefits larger airlines. Major carriers allocate considerable resources to marketing efforts. Frequent flier programs and other incentives have been successful in enticing travellers to fly with certain carriers. The frequent flyer incentive can often be strong enough to cause a customer to choose one carrier over another -- even when the other carrier offers a lower fare.

Barriers to entry are also heightened by the hub system in the airline industry. Carriers can offer travellers more choices while tying up less capital through their hubs. As a result, the hub system creates market power for large carriers.

Bargaining Power of Suppliers

Factors relating to the bargaining power of suppliers include the threat of forward integration and the concentration of suppliers in the industry. Suppliers are concentrated within the airline industry. Boeing and Airbus supply most commercial fixed-wing air carriers. Supplier concentration makes it difficult for competitors to exercise leverage over the supplier and obtain lower prices or play one supplier against another. The threat of forward integration is low. It is unlikely that Boeing, for instance, would staff flight attendants, commercial pilots, and a maintenance crew, and operate flights all across the country. Supplier power further diminishes the ability of competitors to earn high profits.

Bargaining Power of Buyers

The third competitive force is the bargaining power of buyers. If significant buyer power exists, industry returns can accrue to buyers in the form of lower prices. Buyer power is determined by switching costs, the relative volume of purchases, the standardization of the product, elasticity of demand, brand identity, and quality of service. Buyers are presented many choices when choosing an airline carrier. Because of the Internet, pricing information is less fragmented and easier to compare. Often, a traveller can find price discrepancies for the same exact flight. One seat is hardly any better than the next since everyone arrives at his or her destination at the same time. Vacation travellers will also search out the best deals. Airline travel is not cheap, and can be the most expensive part of a family vacation. Hence, for some buyers, demand is very elastic (as the price drops, demand increases). However, airlines may move their prices in tandem with other carriers and force buyers to pay the market price until a price war breaks out.

Availability of Substitutes

The fourth factor affecting industry competition is the availability of substitutes. The relative price of substitutes and the buyer propensity to substitute have effects on the industry. Likely substitutes for airline travel include automobiles and trains. Driving from Washington, D.C., to Philadelphia may provide a cheap mode of transportation, and buyers may be more inclined to use automobile travel for such a trip. A less hurried traveller may hop aboard a train and enjoy the relaxation and scenery that train travel affords. However, airline travel can save time and money for longer distance adventures. Flying from Washington, D.C., to San Francisco is often cheaper -- and far more time-efficient -- than chugging along in a train or automobile. As a result, buyers may be more inclined to choose air travel to reach their destination. The threat of substitutes has to do with time, money, personal preference, and convenience in the air travel industry.

Competitive Rivalry
The final factor is competitive rivalry. Intensely competitive industries generally earn low returns because the cost of competition is high or buyers are receiving the benefits of lower prices. Factors that affect competitive rivalry include industry growth, fixed costs, brand identity, and barriers to exit. The airline industry is fiercely competitive. Industry growth is moderate, and carriers are struggling to take away share from each other. Barriers to exit are substantial in the airline industry. Grounded planes do not earn any returns and disposing of these assets is difficult. Often, because of bankruptcy laws, companies in financial distress such as Pan AM or TWA can remain competitors for a very long time.

Not all of these factors are equally important when assessing the overall attractiveness of an industry. In the airline industry, it's easy to gain entry, but very difficult to get out. This is often the worst possible scenario for a competitor. Not surprisingly, airlines have been mediocre investments in recent years.

It is important to note that a full-fledged industry analysis would require talking with customers, suppliers, competitors, industry experts, and a variety of other sources. However, as a general overview, using Porter's five forces is an excellent way to get a feel for whether or not you would like to invest in a particular industry

Source: http://www.fool.com/research/2000/features000309.htm

Based on the above would you invest in the airline industry?

Apply Porter to the Case Study.

Porter generic strategies

Michael Porter has described a category scheme consisting of three general types of **strategies** that are commonly used by businesses. These three generic strategies are defined along two dimensions: strategic scope and strategic strength. *Strategic scope* is a demand-side dimension and looks at the size and composition of the market you intend to **target.** *Strategic strength* is a supply-side dimension and looks at the strength or **core competency of th**e firm. In particular he identified two competencies that he felt were most important: **product differentiation** and product cost.

He originally ranked each of the three dimensions (level of differentiation, relative product cost, and scope of target market) as either low, medium, or high, and juxtaposed them in a three dimensional matrix. That is, the category scheme was displayed as a 3 by 3 by 3 cube. But most of the 27 combinations were not viable.

In his 1980 classic *Competitive Strategy: Techniques for Analysing Industries and Competitors*, Porter simplifies the scheme by reducing it down to the three best strategies. They are cost leadership, differentiation, and market segmentation (or focus). Market segmentation is narrow in scope while both cost leadership and differentiation are relatively broad in market scope.

Empirical research on the profit impact of market share indicated that firms with a high market share were often quite profitable, but so were many firms with low market share. The least profitable firms were those with moderate market share. This was sometimes referred to as the hole in the middle problem. Porter's explanation of this is that firms with high market share were successful because they pursued a cost leadership strategy and firms with low market share were successful because they used market segmentation to focus on a small but profitable market niche. Firms in the middle were less profitable because they did not have a viable generic strategy.

Combining multiple strategies is successful in only one case. Combining a market segmentation strategy with a product differentiation strategy is an effective way of matching your firm's product strategy (supply side) to the characteristics of your target market segments (demand side). But combinations like cost leadership with product differentiation are hard (but not impossible) to implement due to the potential for conflict between cost minimization and the additional cost of value-added differentiation.

Since that time, some commentators have made a distinction between cost leadership, that is, low cost strategies, and best cost strategies. They claim that a low cost strategy is seldom able to provide a **sustainable competitive advantage.** In most cases firms end up in price wars. Instead, they claim a best cost strategy is preferred. This involves providing the best value for a relatively low price.

Cost Leadership Strategy

This strategy emphasizes efficiency. By producing high volumes of standardized **products**, the firm hopes to take advantage of **economies of scale** and : **experience curve effects**. The product is often a basic no-frills product that is produced at a relatively low cost and made available to a very large customer base. Maintaining this strategy requires a continuous search for cost reductions in all aspects of the business. The associated distribution strategy is to obtain the most extensive distribution possible. Promotional strategy often involves trying to make a virtue out of low cost product features.

To be successful, this strategy usually requires a considerable market share advantage or preferential access to raw materials, components, labour, or some other important input. Without one or more of these advantages, the strategy can easily be mimicked by competitors. Successful implementation also benefits from:

- process engineering skills

- products designed for ease of manufacture
- sustained access to inexpensive capital
- close supervision of labour
- tight cost control
- incentives based on quantitative targets

Differentiation Strategy

Differentiation involves creating a product that is perceived as unique. The unique features or benefits should provide superior value for the customer if this strategy is to be successful. Because customers see the product as unrivalled and unequalled, the price **elasticity of demand** tends to be reduced and customers tend to be more **brand** loyal. This can provide considerable insulation from competition. However there are usually additional costs associated with the differentiating product features and this could require a premium pricing strategy.

To maintain this strategy the firm should have:

- strong research and development skills
- strong product engineering skills
- strong creativity skills
- good cooperation with distribution channels
- strong marketing skills
- incentives based largely on subjective measures
- be able to communicate the importance of the differentiating product characteristics
- stress continuous improvement and innovation
- attract highly skilled, creative people

Market Segmentation Strategies

In this strategy the firm concentrates on a select few **target markets.** It is also called a focus strategy or niche strategy. It is hoped that by focusing your marketing efforts on one or two narrow market segments and tailoring your **marketing mix** to these specialized markets, you can better meet the needs of that target market. The firm typically looks to gain a competitive advantage through effectiveness rather than efficiency. It is most suitable for relatively small firms and has much in common with : **guerrilla marketing warfare strategies**

Source: http://www.absoluteastronomy.com/encyclopedia/P/Po/Porter_generic_strategies.htm

Step 6: Assessing the Options

This is the final area for class discussion.

Assessing the Options

(From the case study)	Strategic fit- how does this strategy 'fit' with the aims, objectives, resources and culture of the business?	Stakeholders – what is their view likely to be? Shareholders; employees; suppliers; competitors….	Feasibility – cam this strategy be followed through? What resources are needed? What do we have?
Buy into Cross-Channel Ferry Group			
Bus companies- set-up or sub-contract			
Internet cafes			
Rail franchise			

Using the above grid assess the Options presented in Appendix 2

Step 7: Role Play: Time: 1 hour

Now all the discussions and investigation can be put into practice through Role Play! The Trial was designed for St Helen's School but may be adapted for your own school. The purpose is to encourage full discussion and for the teacher (and part of the class) to observe the 'jury' to see how the discussion develops.

Ethics on Trial – at St Helen's School

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Introduction

Welcome to ‘Ethics on Trial’. This is a role-playing exercise to examine one of the issues in the Edexcel A2 Case Study Fly-U-There plc. The format for this ‘trial’ can be used for a number of issues raised in the Case Study.

Syllabus states: *how corporate strategy can respond to its external environment, ethics, and change*

The charge: **The shareholders of FlyUThere should consider selling the business to a larger competitor?**

The Judge:

The plaintiffs:
a.
b.

The defence team

a.
b.

The Jury:
a.
b.
c.
d.
e.

The witnesses

For the prosecution:

a.

For the defence:

a.

Procedure

(This next section on ‘vetting’ is optional)

The jury is vetted first by one member from the defence team and one from the prosecution. Any objections to the Jurors are stated and the Juror may be replaced. Thus if one of the pupils is a known vegetarian and the case involves the treatment of animals….

The judge calls the court into session (this time can be varied according to the length of the lesson)

1) The judge delivers a brief opening statement which includes an initial case description, an identification of the relevant issues in law as they appear in the syllabus, and an identification of the waived and contested issues.

2) The prosecution/plaintiff then the defence each deliver 3 minute opening statements.

3) The prosecution/plaintiff presents its case in 12 minutes through the direct examination of their witnesses. The witnesses use the resource material provided.

4) After each witness, the defence may cross-examine using a total of 4 minutes for all witnesses (this 4 minutes does not come out of the prosecutor's time).

5) The defence presents its case in 12 minutes through the direct examination of their witnesses.

The ‘witness’ is a pupil who uses ONE of the articles included in this Case Study analysis. Before the cross examination the prosecution MUST have access to the material

The defence presents a 6 minute closing argument.

The prosecution presents a 6 minute closing argument.

The judge charges the jury

Throughout the trial the judge promptly and decisively resolves objections. The time spent arguing objections, if any, will come out of the time of the side that loses the objection.

Note: *The Jury now take centre stage. The rest of the class listen in to their debate. The jury has a foreman (to be elected) and his/her role is to make sure the case in examined purely on the evidence provided NOT any previous beliefs.*

Issuing a verdict.

The Jury discuss, with the rest of the class listening in. perhaps they elect a Foreman – it all depends on time. By listening to their discussion the rest of the class can tell whether they have been following the 'trial' and whether or not the title is actually being discussed – or whether the jury are really discussing something off the point. After ten minutes the jury votes and then, unless they are unanimous, they can spend time trying to convince the minority voters or the abstentions.

Resources/witness statements

This refers to the various material included above. Perhaps homework could be set for the 'defence' and 'prosecution' to research and provide their own material?

Conclusion

This manual is entitled: "…Teaching Fly-U-There Case Study in a day!" To do this we have moved through several stages:

Step 1: applying the syllabus to the case study. This makes sure that nothing is left out

Step 2: Mind Mapping the case study and incorporating extra informaiton.

Step 3: using external resources to enable evaluation and comment on strategy

Step 4: answering questions

Step 5: Big questions

Step 6: assessing the options

Step 7: Role Play

The emphasis throughout has been to encourage pupils to THINK, to APPLY and to DISCUSS – all activities they will be expected to be proficient in for the examination. As these materials are photocopiable they may be used in different ways to those suggested – but the overall aim has been to present a 1-day revision course for this Case Study.

All comments should be directed to the undersigned:

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