

Coursework 1

EasyJet reports demand still strong

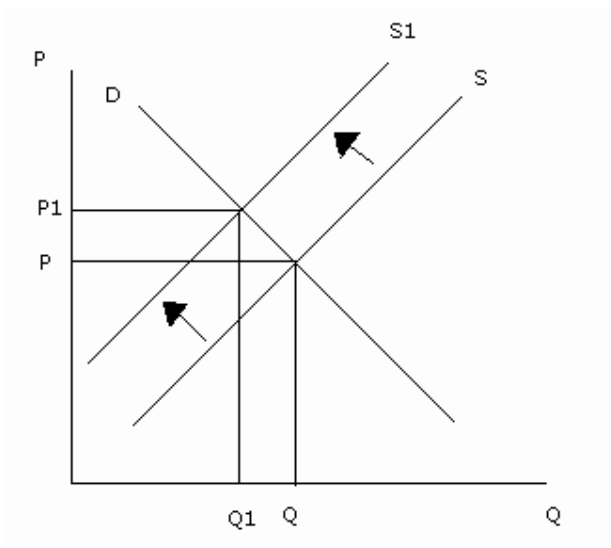
This year, oil prices is affecting negatively EasyJet and other airlines, since they cannot make a profit if the oil price stays at current levels.

Strong demand is the only positive side of the unprecedented rise in costs due to the high prices of oil, \$140 a barrel, which could lead to a loss of nearly 6\$ billion this year.

Those airlines which will be in the market this summer will have a very high revenue and costs because of the rise of petrol, which will lead to a very low profit. In September, when the peak summer season has finished, the revenue will decrease drastically, as a result, the profit will turn negative.

EasyJet is already working in lowering costs, so that the high price of petrol won't strike in a hard way the company. Their planes are now flying up to 2% slower on some routes in order to save hundreds of pounds per flights.

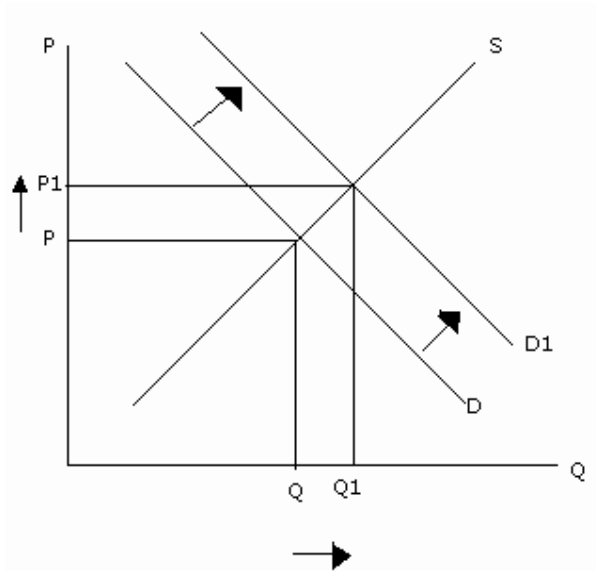
In first place, for airlines, oil is the fundamental material needed to offer their services. When the price of oil increases, the supply decreases, which leads to an increase in the price, but decrease in quantity. This action produces a decrease in the total income, which can be seen in the following graph:



In this graph, we can see how the supply decreased because of the rise in costs. To lose the less amount of profit, the price is increased, and because of that the quantity supplied decreases.

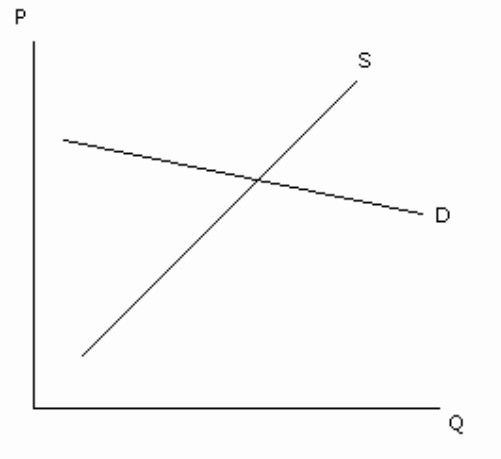
The quantity demanded in the summer season increased because of the vacations and the high demand in trips over the world. This won't help as much as the airline might think, as EasyJet's director of communications, Toby Nicol, said: "Those airlines which are in the market this summer will have another good few months in terms of revenue, but it will not be enough to cover the costs,"

The demand in quantity increase because of the summer season can be seen in the following graph:

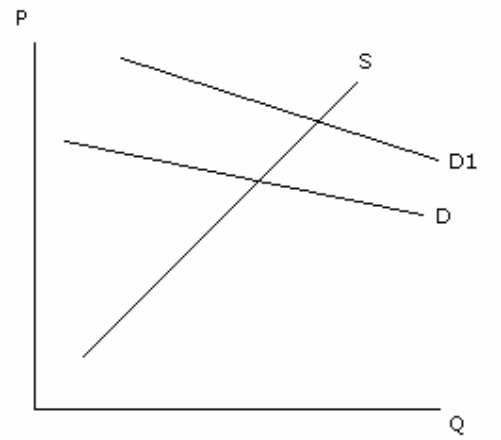


In this graph, we can see how the demand affect the price of the service. As the demand for the service increases, the price and the quantity supplied increases as well. In this case, the price increased won't be enough to cover the high costs.

In the normal season, the elasticity is very high, because people want to fly within the less cost possible. This means that the company can't increase too much the prices to cover the costs, because as a result, they will lose a lot of customers who will change to a cheaper service.



In the other hand, in the summer season, EasyJet took advantage of the high demand, so increased the price, since the elasticity goes down when the demand increases. This happens because very few customers will change company, because nearly all companies increases their prices in summer seasons. The decrease in elasticity because of the increase of demand can be seen in this graph:



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Finally, EasyJet found a way to decrease its costs. They decided to fly their planes 2% slower in some routes in order to conserve fuel. This method will lower their costs in a huge way, taking into account the thousands of flights that the company has each month. Also as they lower their costs, they won't need to increase their prices to cover the costs, as a result EasyJet will have a higher demand because of low prices, and will continue growing.

In conclusion throughout this analysis I understood the importance of having low costs in a company, and the difficult problems that most airlines are having with oil. Also I realise that the summer seasons are very helpful for airlines, but now a days, even high revenues in summer vacations can't afford extremely high costs of companies, which are centralized in oil. EasyJet has found a little solution to this problem, which consists in lowering by a low percent the airplanes velocity, so that costs are lowered.