



Cost Modelling at easyJet

A state-of-the-art cost modelling application built by Thorogood helps easyJet, the UK's largest airline, maintain a vital competitive advantage through efficient cost control.

Background In 2009, easyJet flew more than 45.2 million passengers to around 114 destinations across Europe and North Africa, generating a turnover of over £2.6 billion. easyJet has been part of a revolution in affordable air travel that has given more people the freedom to fly more frequently.

At the heart of this transformation is the relentless pursuit of efficiency and cost reduction. This requires processes which engage everyone, but especially decision makers in procurement, operations management and finance, to drive efficiency and cost reduction. easyJet had recognised that they had an opportunity in relation to the systems, processes and controls that were in place around its direct operating costs. Multiple disparate systems were being used to manage this area with a lack of systematic control and granularity of data. This resulted in the process for updating changes across the systems being overly cumbersome, inefficiencies when investigating issues during both planning and monthly reporting cycles given the visibility of data and generally too much chance of error across the end to end processes.

To maintain their competitive advantage in the budget air travel industry through tight cost control, easyJet needed a system which would allow them to model, review and analyse their costs from the lowest level of detail upwards. For this they came to Thorogood.

Objectives The objectives of this new system were:

- To make costs and their drivers transparent so that all levels of the business could align their decision making around value for money and efficient use of resources.
- To provide a step change to the granularity and detail of cost information that would equate to individual transactions or flight event charges
- To support faster analysis including specific what if analyses such as with exchange rates
- To employ the same calculation logic employed in the actuals for the planning activities
- To use current actual charge rates as the basis for future cost projections with the further ability to layer on top inflationary and other future changes
- To improve the annual budgeting cycle to be faster, more efficient and produce more value
- To provide highly granular internal cost estimates to facilitate supplier invoice reconciliation

Solution The solution is a Direct Operating Cost planning application which allows Procurement Managers, Airport Managers, Analysts and the Finance Team to collectively review costs against any axis of the business and to drill to highly granular detail. This was achieved by each user having access to the information relating to their respective expertise or responsibility and then being able to save reports once they had customised them for their needs. This self-serve approach was enhanced with an ability to see an audit history of changes to data such as to airport charging rates.

Planned and actual flight volumes from all of the easyJet operating locations are automatically loaded into a multi-dimensional analytical engine within which complex airport contract rate projections are maintained. Individual charges associated with the single flight events, typically landing or take-off, are then calculated using the appropriate cost algorithm for the contract and type of charge, eg. landing charges which may vary by time of day or size of aircraft.

The impact on costs from changes to rates (including currency), volumes and charging algorithms can be calculated and reported promptly at any level of aggregation. Variances are generated automatically, with the system facilitating subsequent investigation by allowing drill through to the appropriate detail and insight on the root causes.

Technology

The application is powered by IBM's TM1, a memory resident calculation and analytical engine which has an Excel and web interface. It is easy to use and performs complex calculations very quickly, enabling efficient slice and dice analysis to drive more effective cost control and value from the planning process.

Outcome

easyJet now has a fast, efficient, highly granular, accurate and easy-to-use cost modelling tool that empowers the decision making community to minimise costs through actions that both anticipate and respond to market changes. The new cost modelling application means that easyJet can identify and take early action on opportunities and issues, thus directly improving its bottom line.

"The big difference from a financial accounts point of view is the speed with which we can now view detailed variance analysis against budget. The calculation of cost for activity at a flight level has greatly improved the accuracy of monthly accruals and made the process of investigating differences when they occur far more efficient."

Neil Bradbury

Senior Financial Accountant - Ground Operations

"I now have far greater confidence over the level of control around this area of the business with a system that is more accurate, reliable and efficient through both planning and month end processes."

Tom Smethers

Group Financial Controller

Thorogood

easyJet chose Thorogood because they understood that our delivery model which uses expert and highly productive teams would provide the best solution at the best price.

"A key reason for going with Thorogood was the commitment they showed in being able to deliver our requirements. Issues, risks and questions of scope can be expected on a project of this complexity, though through Thorogood's perseverance and a lot of hard work on both sides an application that adds real value to the business has been delivered."

Neil Hay

Finance Systems Manager

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