OnLine Case 13.4
Laker Airways

Freddie Laker, who became Sir Freddie in 1978, was an entrepreneur and a pioneer in the competitive international air transport industry. He was a well-quoted self-publicist whose commercial exploits brought him fame and recognition. He introduced cheap trans-Atlantic air travel, providing travel opportunities for many people who previously had not been able to afford the fares, but his business collapsed in the early 1980s. At the time he blamed others for his demise and, while there is substance in his argument, the fact remains that he had personally sown the seeds of his downfall with a flawed strategy. However, he would later bounce back again.

Laker was born in 1922 in Canterbury. His trigger for a life in aviation was a sight of the *Hindenberg* and a Handley-Page biplane flying over his house when he was still a boy. He subsequently learned to fly and served with the Air Transport Auxiliary in World War II. In 1953 he began his first business, Channel Air Bridge Ltd, to sell air transportation of vehicles, passengers and cargo (including live animals) on the same aircraft. He was involved in the design and development of Gatwick Airport, before he helped to develop and run British United Airways in 1960. At this time BUA was the largest aircraft company in the private sector. His next venture, Laker Airways in 1966, was a small independent company 'operated on a shoestring' which offered inclusive package holidays and provided charter flights for organizations who could book all the seats on a plane and flights for tour companies who did not own their own airline. He was the first all-jet carrier in the UK. Laker's stated intention was to stay small: 'If we get any bigger than six planes you can kick my arse.' From a marketing perspective, Laker was always pioneering new ideas.

In the 1970s his ambitions changed and he became determined to 'try a new market and offer transport to a lot more people'. At this time the only cheap air fares across the Atlantic were charter flights, whereby travellers had to be a member of some sponsoring organization for at least six months before flying. The international carriers operated a price-fixing cartel organized by the International Air Transport Association (IATA) with the connivance of all governments concerned. Charter flight regulations tended to be abused, and consequently the major carriers fought for stricter monitoring which brought about a decline. Laker conceived Skytrain, a 'no booking, no frills' operation with prices significantly below those offered by the major airlines, who naturally opposed his idea.

Laker applied to the Civil Aviation Authority (CAA) for a licence first in 1971 and was refused. In late 1972 he was given permission as long as he flew out of London's Stansted airport, although his base was on the other side of London at Gatwick. Delaying tactics involving British and US airlines, the UK Labour government, the US government and the American equivalent of the CAA meant that the first flight did not take place until September 1977, when Skytrain was launched with enormous publicity, this time from Gatwick. In this period oil prices had increased dramatically and Skytrain, although still under £100 for a single fare, was double the price estimated in 1971. In turn, the Skytrain fare was well under half the cost of the cheapest fare offered by IATA carriers, who subsequently had to reduce their fares in the face of this new competition.

Although they claimed that they did this reluctantly, it had a devastating impact on Laker, who accused them of adopting a predatory pricing strategy purely to try and drive him out of business. Skytrain's competitive strategy, and apparent advantage, was its low price resulting from its low cost base, but its service package was clearly inferior to that of the major carriers. When the price gap was narrowed, Skytrain became less attractive to customers and its early competitive advantage was not sustainable.

Skytrain made £2 million profits in its first year of operation, but difficulties experienced when it was extended to Los Angeles in 1978 effectively wiped out the profitability. In 1979 Laker became a fully licensed trans-Atlantic carrier and for the first time was able to pre-sell reserved seats. Laker's confidence grew, and anticipating that he would be given permission to fly more routes around the world he ordered ten Airbus A-300s and five McDonnell Douglas DC10s at a total cost of £300 million. Eventually this was to bring about his downfall. Laker was already using DC10s for Skytrain and when the US government grounded all DC10s for checks in 1979 Laker lost £13 million in revenue. In 1980 he failed to win licences to fly Skytrain in Europe and to Hong Kong, although he did begin services from Prestwick and Manchester and to Miami.

Profits of £2.2 million were reported for 1980–81, but significantly three-quarters of this came from favourable currency movements. By 1981 the pound was falling against the dollar, demand was declining, revenue was down, but the debt interest payments, mostly in dollars, were rising. There were, in effect, too many planes and not enough passengers flying the Atlantic. The major airlines wanted fares to rise, but Skytrain remained the force that kept them low. Laker managed to renegotiate some interest payments and a cash injection from McDonnell Douglas, but he also had to increase fares and sell his Airbuses. He was left with a break-even level of virtually all the seats on every Skytrain, but was able to fill only one-third of them. When the receiver was called in (February 1982) Laker had debts of some £270 million.

Laker had pioneered cheap trans-Atlantic air fares, which have stayed in different guises since his collapse, but he made the mistake of becoming overconfident. The man who originally intended to stay small went for growth. At the same time he was determined to retain total control of his company and therefore raised loan capital against very limited assets rather than seeking outside equity funding. The interest payments brought him down, particularly as he raised most of the money in dollars without adequate cover against currency fluctuations. Finally, as something of a buccaneering character described by one airline executive as a man who ‘a few hundred years ago would have brass ear-rings, a beard and a cutlass’, he underestimated the power of the vested interests who opposed him. Had their opposition not delayed the introduction of Skytrain by six years, maybe things would have turned out differently.

A bitter Sir Freddie moved to Florida, and by the early 1990s he was back. In 1992 he began regular flights to and from the Bahamas from his new hub; and then, in 1996, he returned to the UK with return charter flights to Gatwick from Orlando. This time he intended to compete on service as well as discounted prices – he had learned a hard lesson. He negotiated convenient take-off and landing times and offered above-normal baggage allowances. His drinks (in crystal glasses) and food (served on china with stainless steel cutlery) were to be superior to most other charter flights. Would the package prove sufficiently different and would he be able to fly his small fleet of DC10s reliably? Yet again, all would not go smoothly.

Questions: How much of Freddie Laker’s downfall was the result of his own misjudgements and how much was it external forces?

To what extent were the pluses and minuses of Freddie Laker’s business career built into his entrepreneurial personality?