

Ryanair strategic planning

Business, Strategic Management



RyanAir is generally described as cheapest fare airline in the world and has introduced 950 plus low fare routes across 26 countries, connecting 150 destinations. RyanAir is the World's favourite airline which operates a fleet of 210 new Boeing 737-800 aircraft with firm orders for a further 102 new aircraft (before taking account of planned disposals), which will be delivered over before the end of 2010. There are more than 7, 000 people employed and RyanAir expects to carry approximately 66 million passengers in the current fiscal year.

SHORT HISTORY

Ryan family set up RyanAir in 1985 with a share capital of just £1 with a team of 25 employees. They launched their first route in July 1985 with daily flights on a 15 seater Bandeirante aircraft, operating daily from Waterford in the southeast of Ireland to London Gatwick airport. RyanAir first cabin crew recruits must be less than 5ft 2in tall in order to be able to operate in the tiny cabin of the aircraft.[1]The successful journey from 1985 to 2010 made RyanAir the second largest scheduled airline in the UK in terms of passenger carryings. The first year of operation in 1985 RyanAir carried 5, 000 passengers and according to the recent news on 7th Jan 2010, RyanAir claimed that it carried over 65 million passengers in 2009 which was an increase of over 7 million passengers on its 2008 traffic.

RYANAIR STRATEGIES

Europe's leading airline RyanAir having its headquarters at Dublin Airport, Ireland highly recognised and acknowledged worldwide for its " Low-Fare" policy operating on the Southwest airlines formula of low-cost and no frills,

this Irish airline operates short-haul, point to point routes between Ireland, the UK and Continental Europe thus creating a niche position in the aviation industry.

RyanAir Chief Executive, Michael O’Leary came up with his unique strategic plan to establish RyanAir as Europe’s leading “ Low – Fares” airlines. The continue improvements with an aim of cost containment and operation efficiencies generated an increased passenger traffic in nearly 25 years of its operation. The charismatic and the acerbic CEO of RyanAir had a well-defined objectives and goals as follows:

LONG TERM OBJECTIVES AND VISION

To be the biggest and the most profitable low fares airlines in Europe.

Opening new Airports by expanding into central and Eastern Europe.

To have largest amount of routes and increasing the frequency of existing routes.

To target growth, actively manage load factors and the cost base

To take Market share from the Charter Market

Internet Based bookings

Cost Reduction

Customer Service Overhaul

After keeping in mind these factors, the watchful eye of Michael O’Leary came up with Strategy to decrease its costs and increase its appeal to the clients. The key elements used for RyanAir’s strategy are as under:

LOW COST FARES

Michael O’Leary revolutionised the aviation industry by launching the first ever unique “ Low – cost Fares” in Europe which gave a tremendous impact and was then followed vigorously.

These strategies played a crucial role and turned out very useful to bolster Ryan airline image in market. The targeted businessmen or the ones who used trains, coaches for travelling.

RyanAir launched promotions wherein they offered two million seats for €0.90, this strategy helped RyanAir to create a niche position in the aviation industry.

SELECTION OF ROUTES

RyanAir has made a well -thought decision in choosing its routes keeping in mind the criteria like cost, efficient Facilities, geographic demographic, strategic.

By targeting the secondary and the regional airports outside the metropolitan areas they have contributed to a huge success.

The key factors were the faster turnaround time, less congested, less delays in flights, more crowd.

In 2008, RyanAir on-time performance record was 88% which put it ahead of its competitors like British Airways (65%) and Aer Lingus (78%)

POINT TO POINT FLIGHT SERVICE

Point to point service on short-haul routes eliminated the unnecessary frill charges which were expected by the passengers.

It minimised the time by avoiding the transfer of baggage and by avoiding the assistance to the passenger in the transit.

CUSTOMER SERVICE

RyanAir has few complaints with respect to the loss of passenger baggage in comparison to its peer competitors.

Also RyanAir was well-known for its punctuality and fewer cancellations.

INCENTIVES

RyanAir gives commission to its on-ground and on-flight staff if they promote well by selling their product thus generating sales for the company.

LESS OPERATING COSTS

RyanAir limited their fleet to three variants of single type of aircraft – Boeing 737 thereby saving aircraft equipment costs and it made easy to train all the staffs because of the availability of same aircraft.

INTERNET USAGE

In year 2008 RyanAir booked 99% of all fares through their website reservation system which is more cost-efficient than traditional, agent-based ticketing and through this system they sell about 1000 tickets per day.

SAFETY

RyanAir never had any incident causing an injury to the passenger in its past 20 years because the planes are always been services on time and maintained regularly.

ANCILLARY SERVICE

RyanAir 18% of sales have come from these Ancillary services. These include segments like fees for checking luggage, Car rental exclusively having a contract with Hertz, in flight sales which include beverage, food, train and bus tickets aboard its planes. Internet related sales like accommodation and travel services.

FOCUSED CRITERIA FOR GROWTH

Long term scope – like initiating new additional routes, establishing more bases, improving the services and considering the possible acquisition in the near future.

CRITICAL ANALYSIS OF THE RECENT STRATEGIC PLANNING OF SKYBUS

SHORT INTRODUCTION & HISTORY

John Wickle and Ken Gile, the founders of SkyBus came with the concept of low cost offering Airlines wherein they raised about \$160 million in start-up funds from investors such as Morgan Stanley and other investment management and commenced its operations in year 2007. SkyBus Airlines Inc. started its operation in 2007 based in Columbus, Ohio, United States. It was inspired by RyanAir and operated as an ultra-low-cost carrier and aimed to be the least expensive airline in the United States. SkyBus' first passenger

flights out of Columbus began on 22nd May 2007. Less than a year later, SkyBus announced that it would cease operations as of 5th April 2008, citing the lagging economy and rising fuel costs as causes.

SKYBUS STRATEGIES

Strategy can be defined as the long-term direction and scope of an organisation by which the objectives of the company are consciously pursued and obtained over time through its configuration of resources and competences with the aim of fulfilling the stakeholder expectations.

SkyBus board hired Bill Diffenderfer as its CEO and he alongwith his SkyBus team wanted to revolutionise and has excellent plans for generating revenues. They came up with the ideas and concept which was followed by RyanAir and use the following strategies:

LONG TERM OBJECTIVES, VISION AND GOALS

To be the leading and cheapest airlines in the United States

To stimulate people to travel by its unique pricing philosophy

To expand into other markets where fares are high and non-stop competition on large commercial jets is minimal.

To increase the flight service using secondary airports to reach the remote areas.

To fulfil these objectives, SkyBus airlines implemented the following strategies:

CHEAPER FARES

SkyBus granted their 10 seats for \$10 on every flight (excluding taxes and fees).

With some of the SkyBus less popular routes they offered tickets at a cost of \$20.08, usually their ticket fares were half the price of other airlines.

The cheapest round – trip ticket for one adult would have cost them approximately \$40. These were an intentional price-war tactic used by the SkyBus to attract more passengers.

MARKETING AND ADVERTISEMENT

Good marketing campaign and advertisement was done.

They promoted the theme saying “ Nationwide is on Your Side”.

SkyBus also had self-advertising on the orange tails of its white planes that says “ SkyBus \$10 Fares Only Birds Fly Cheaper.”

Tray tables, carpeting and even overhead bins featured advertising space. Cabin crew members were required to sell food and drinks and items to passengers from the on-board gift shop.

EXTRA-CHARGES TO BE PAID

SkyBus used the strategy of charging extra-fees for its other services

Charges for check-in luggage the first two bags were charged \$10 each online or \$12, overweight baggage was been charged at a cost of \$25.

Charges of \$10per person for priority seating.

The passengers had to pay for the food and beverages.

LOW OPERATING COSTS

They followed the same strategy of RyanAir of keeping the same model of aircraft to keep their maintenance and operating costs to a minimum.

The equipment from engines to electrical components was same.

Because of the same aircraft model they spent less on training the staff.

SELECTION OF ROUTES

SkyBus used the method of cost reduction with utilizing secondary airports

To save even more money at the airport, passengers boarded directly from the apron instead of using the jetway, saving both loading/unloading time as well as operating costs.

SkyBus served Columbus passengers with flights to smaller and secondary airports.

ONLINE BOOKING OF TICKETS

SkyBus used the Internet Technology as their prime-mode and sold tickets only through its website

They avoided the skills of third party (travel agents) neither did they set up a call centre for customer service with a thought of saving money.

INCENTIVES FOR EMPLOYEES

The employees were paid incentives in addition to their salary if they successfully sell the products like food, beverages etc.

Flight attendants were paid \$9 per flight per hour as their wages.

They receive incentives of 10% of all sales made during flight, splitting all commissions evenly amongst the flight attendants.

COMPARISON AND CONTRAST THE OUTCOME OF THE TWO COMPANIES

A brief analysis of the environment in which RyanAir and SkyBus were operating is given below:

PEST ANALYSIS

Pest analyses for SkyBus are as under:

ECONOMIC FACTORS

US have stable economy and stable consumers

SOCIAL

Growing interest of people in travelling is trend in US

TECHNOLOGICAL

Increase in seating capacity

Usage of Internet

POLITICAL

US a politically well stabled country

INDUSTRY ANALYSIS

SkyBus airlines model was based on RyanAir and Southwest airlines. By combining the best features of these two airlines, SkyBus hoped to become

the cheapest airline in North America. The model was built with the following factors in mind:

Operated on ultra low cost carrier.

Advertised interior and exterior of the aircraft

Low operating costs

100% online ticket booking

Flat management structure

To increase ancillary revenues

Increased capacity of airplanes and lowest threshold to travel to achieve highest seat density

Focus on routes with large non – business potential.

SWOT ANALYSIS

STRENGTHS

Cost differentiation

More seats per aircraft

No meal means extra storage space is reduced

Reduced staff number

E – Distribution – Eliminating the third party for the sales of tickets.

WEAKNESS

Fixed cost can be perishable as the varying nature of product every airline offers & its price war

Limited sectors- SkyBus airlines fly to a limited areas only

Lack of proper planning

No previous industry experience

Restricted expansion possibility

Poor customer service

No connection opportunities for passengers

Reduced staff number

OPPORTUNITIES

Benefits from less exposure to political risks

Huge Market potential as billions of people likes travelling.

Tax holiday on aircraft leasing

THREATS

Existing competitors in the markets

Oil Price Fluctuations

Increase on low fare competition

Price sensitivity

Economic crisis

PORTER FIVE ANALYSIS

BARGAINING POWER OF SUPPLIERS

The airline supply mainly is dominated by Boeing and Airbus. Boeing is focussed on medium capacity long haul aircraft and Airbus has made huge investment in A380 which is its new large capacity – on long haul.

Fuel suppliers have significant impact.

Currently the world aircrafts suppliers are having good control in market shares.

BARGAINING POWER OF CUSTOMERS

Travellers are always price conscious

Customer's expectations with respect to punctuality, service and safety.

Customers always search the net to check the best price deal

Availability of credit cards have increased the buyers purchasing manifold.

NEW ENTRANTS

Intense competition in the market with respect to price

Possibility of shake-out due to the existing strong players in the market

Entry barriers includes government licensing and approvals, huge capital investment, high running costs.

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THREAT OF SUBSTITUTES

Train and Buses are substitutes for air travel. This is due to the extra time taken in the airports for the check-in, baggage claim etc.

Attractive package tours are available

Severe weather conditions

COMPETITIVE RIVALRY

Intense competition amongst the airlines

Fare and promotions offer by the other airlines

Same services provided by different airlines

ACTION PLAN

MARKETING PLAN

For marketing purposes, advertisement done at the interior and exterior including overhead bins, tray tables.

SkyBus slogan “ Only Birds Fly Cheaper \$10 fares” which attract customers towards them.

Marketing strategy of selling gifts, everything from soda, food to perfumes, watches, and clothing was implemented on board.

PROVISION OF SERVICES

SkyBus initially operating from fixed point to point services, but then they were trying to improve on these services. On the other hand, they were also planning to expand which were cheaper airports and near major markets.

During a press release Time Warner Telecom Inc., a leading provider of managed voice and data networking solutions for businesses announced a multi-year contract with SkyBus to deliver a comprehensive suit of communication solutions including metro Ethernet, IP VPN, and Ethernet Internet services.

HUMAN RESOURCES

Training was given to the employees with respect to hospitality management to greet the customers with good services and equally important training was also given in case of emergency. SkyBus tried to improve the customer service in all possible ways.

PEST ANALYSIS

A PEST analysis is conducted to evaluate RyanAir's business strategy in more depth as under:

ECONOMIC FACTORS

Inside Europe

Stable economy

Stable consumers

Outside Europe

Non-stable economy

Non-stable consumers

POLITICAL

Inside Europe

Political stability

Outside Europe

Middle East, OPEC a

political force

TECHNOLOGICAL

Aircrafts

Supply chain software's programs

SOCIAL

Changing consumer demographics

Fluctuating consumer preferences

POLITICAL

Governments of individual countries were protecting their national airlines at early stages. RyanAir was able to fly to other territories which were a big success only after the bilateral agreement between Ireland and the UK.

The recent decision taken by the European commission with respect to the Charleroi case says that the RyanAir must payback some of the aid granted by both Walloon Region and BSCA.

Governments looking to increase tourism might favour RyanAir and welcome them to their countries.

ECONOMIC

After the terrorist attacks of 9/11, War in Iraq, Afghanistan all these played a major economic change around the world and fuel and energy costs are cause of uncertainty.

Potential economic recession, Ireland's economy may change suddenly which has already been stated to growing.

SOCIAL

Consumer always look for cheaper way to fly so lower costs can attract majority of them

In the unexpected countries tourism has been expanded which is beneficial to airlines

TECHNOLOGICAL

RyanAir uses its website for online check-in and self check in at airport

RyanAir uses planes of same type which reduces operating costs

INDUSTRY ANALYSIS

CORE BUSINESS MODEL

In the European Aviation sector RyanAir model is stated to be a disruptive model and it challenges the strategies used by the existing, often well-established business in the market. RyanAir's primary focus has always been on price factor and the features of low cost carrier are:

Lowest Ticket prices in Europe

To use secondary and smaller airports

100% web selling of tickets

Increasing the capacity of airplanes

To maximum use of aircrafts due to the fast turnaround times

Additional services at extra charges

Fuel Hedging

Cost-cutting measures

To make a main base location in London (Stansted) UK

SWOT ANALYSIS

STRENGTHS

First ever airlines in Europe to launch low-cost fares and vigorously maintained it till date.

RyanAir has good brand image and a well known and recognised airline in these 25 years for its low-cost carrier.

Good and easily available bargaining powers

Good hard working management

Main operational base at Stansted Airport which is in the busiest traffic zones

Increasing the capacity in new fleets

Maximise utilisation of aircrafts

High market capitalisation by increasing ability to attract finance, aids in acquisition of new aircrafts, enhances ability to take risks and to face challenges.

Internet site (nearly 94% booking) which eliminates the need of travel agents

Reduced labour costs because of its non-unionised labour force

Fuel- Hedging costs keeping impact of fuel price fluctuations

Point to Point flights eliminating through travel service costs

Ancillary Schemes

WEAKNESS

Poor customer service relations which can affect the success

Advertising from the negative press reporting which can affect brand image

High turnarounds would increase fuel consumption and carbon- dioxide emissions

Misleading advertisements about destinations and ticket fares

High sensitivity to any new taxes imposed

Ancillary services of income can be absurd by the day

Low Employee morale

OPPORTUNITIES

Many new destinations will be opened up in the European sector soon

Market share could increase for the low cost – carrier (LCC)

The US – European ‘ open skies’ agreement could be source for increased routes to gain passenger traffic inwards

Increased entrepreneurial activities will be a source for economy air travel

During internal recession the new fleet can be leased out undercutting other sources

THREATS

Competition with other LCC like British Airways and AerLingus

Bargaining power of regional airports has increased for the second round

Limitation of growth on South European market

Low fares do not stimulate demand as customers are price sensitive

Economic recession

Fuel costs depend on the oil market

PORTERS FIVE FORCES ANALYSIS

BARGAINING POWER OF SUPPLIERS

Boeing and Airbus are two main suppliers

Fuel cost is directly proportional to the cost of oil. RyanAir have controlled these through hedging.

Bargaining power of regional airport is comparatively less

BARGAINING POWER OF CUSTOMERS

Customers can switch from one airline to another as they are price sensitive

Customers are more aware of the market and the cost of supplying the service through internet

NEW ENTRANTS

Entry barriers

Huge capital investment

Need for low cost base

THREATS OF SUBSTITUTES

Customers are not loyal towards its brand

No good customer relationship

Different modes of transport

COMPETITIVE RIVALRY

The market of LCC is highly competitive

Different airlines providing and offering same services

If any other airlines decide to compete with RyanAir then there will be high pressure on prices and profitability.

ACTION PLAN

MARKETING PLAN

RyanAir implemented its marketing plan according to marketing mix (Product, Price, Promotion, Place, and People) and started promoting itself in all possible ways through various modes radio, newspapers etc. wherein they stick to their low cost fares strictly from beginning and following it vigorously thereby attracting more customers towards them for the last 25 years.

PROVISION OF SERVICES

RyanAir is looking forward to improve their services ensuring that the customers are satisfied as recently they have received many complaints from the customers. RyanAir is planning to renegotiate with their maintenance contracts and trying to get the best possible deals with the

airport regulatory. RyanAir is also planning to expand their capacity by 112 planes in the coming few years.

HUMAN RESOURCES

To deal with its valuable customers in more efficient and better manner RyanAir is planning to re-train its staff.

CURRENT FINANCIAL POSITION

Ryanair, Europe's largest low fares airline announced on 3rd November 2008 that half year profits of €215m, 47% down on last years interim profits as half year fuel costs more than doubled from €392. 7m to €788. 5m. Traffic grew by 19% to 32m, as average fares (incl. bag charges) fell by 4% to €47, while total revenues grew by 16% to €1. 8bn. Unit costs excluding fuel fell by 6%, (incl. fuel they rose 21%), despite a 2% increase in average sector length.[2]

Summary Table of Results (IFRS) – in Euro

Half Year Results

Sept 30, 2007

Sept 30, 2008

% Increase

Passengers

26. 6m

31. 6m

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19%

Revenue

€1, 554m

€1, 811m

16%

Adjusted Profit after Tax (Note 1)

€407. 6m

€214. 6m

-47%

Adjusted Basic EPS(Euro Cents) (Note 1)

26. 61

14. 44

-46%

CONCLUSION

SkyBus and RyanAir were and are well-known for its “ Low-Cost” fares in the aviation industry to a wider extent. These both companies follow the same strategy of providing Low Cost Fares but the outcomes of each company turned out to be very different.

After analysing and contract of SkyBus and RyanAir we have come to this conclusion that RyanAir is the most radical low cost airline, it differs from its competitors. RyanAir comes out as the purest low cost carrier. The rapid growth of RyanAir is due to:

Low cost airline business model that restructured European Aviation industry

Pioneer innovative cost reduction methods

Creative alternative revenue generation and free flights goal in next phase evolution

RyanAir's simple product consistant of " No-Frills" concept means no meals, drinks or snacks will be provided for free of cost on board. Also point to point services cuts off the extra services. The aircraft is build in such a manner that maximum capacity of the seats are availiable. Positioning refers to target the a specific passenger segment who are more price-conscious. The low-cost model works best on point to point and short haul routes. Low-operating costs consists of low wages, low airport fees, low costs for maintenance, less selling costs and few more factors have become the pillars of this most successful airline company.

The three concepts of simple product, positioning, low- operating costs have been the three major aspects of the low cost carriers airlines and SkyBus and RyanAir has followed these concept vigorously.

At the end we have reached to this conclusion that the advantages of strategic planning could be thought of as providing better value services

than other providers and it fits with the business environment. Strategy is the direction and scope of an organisation over the long term, which achieves advantages in changing environment through its configuration of resources and competences with the aim of fulfilling shareholders expectation. As because of its poor strategic planning SkyBus has to cease its operations in 2008 while RyanAir is still World's famous airline for low fare.