

# Strategy of ryanair in the chinese market marketing essay

[Environment](#), [Air](#)



Ryanair is one of the most favorite airlines in the world operating from more than 44 bases with 1400 numbers of flights running per day connecting 160 destinations. The deregulation which took place in the aviation industry in Europe in the year 1997 can be accounted as the main factor behind its successful and rapid international expansion. Moreover, the company's low cost business model has also complimented the above factors and helped in the company's growth (Ryanaire, n. d.). The result was the evolution of the company as the largest low cost international carriers. The company has shown rapid and consistent growth from the time it was launched.

The project aims to put forth the strategic interest in expanding operations in the Chinese market. In this regard, it analyses the overall strategic environment in which the company operates. This has been elaborately presented with the help of PESTEL analysis and Porter's Five Forces Model. Based on the analysis, the strategy has been designed for the company. This has been done using the Ansoff Matrix and the Nine Strategic Windows. Finally, the overall evaluation of the strategy has been given as per the company's objectives.

## **Company Mission and Vision**

The company does not present or publish a formal mission or vision statement. However, as per, Michael O'Leary's public statements the company aims to simply continue being " the largest Low Cost Leader in the European airline industry" (Box & Byus, 2005, p. 3). This vision is maintained and reflected through all its business strategies which remains dedicated towards low cost performance in all elements of its value chain, quick gate

turnarounds, non union operations, performance based incentive compensation plans, standardization of the aircrafts and flying to the secondary airports which gain significant savings for the company (Box & Byus, 2005, p. 3).

## **External Strategic Environment**

### **PEST Analysis**

#### **Political**

China has been slowly converting itself into a market economy. The state has also been effective in making the transition. In fact, it has economic links with many of the cities in the United Kingdom and has the involvement of the relevant Chambers of Commerce in this regard. The overall political condition is one that promotes entry of industries into the market. The sectoral delegations are administered and organized by the “ Department of Trade and Industry” (Chinese Marketing and Communications, n. d.). The China Council is considered to be the most important “ clearing house for trade and investment opportunities in China” (Chinese Marketing and Communications, n. d.). It provides information comprehensively for the promotion of trade and investment activities.

#### **Economic**

China’s economic condition also looks favorable for the airlines industry. This is because the economy has undergone restructuring which has resulted in efficiency gains and this has added to the GDP growth substantially. The economy has remained in the path of a rapid growth trajectory since the beginning of 2011. As per the 12th Five year plan, China emphasizes on the

growth of its domestic consumption and makes the economy less dependent on exports. The country especially promotes foreign investment in strategic emerging sectors (Central Intelligence Agency, 2011). The company would have to cope with the fuel expenses which have been growing across all corners of the world. The company has already undergone major losses as well as offset of its revenue growth arising from high cost of fuel. The fuel rising expenses of fuel Ryanair since 2005 has been shown in the following figure.

Figure 1: Ryanair fuel expenses as a portion of total operating expenses: 1Q05 to 2Q09

**(Source: Centre for Asia Pacific Aviation, 2008)**

### **Socio-Cultural**

The Government has taken active efforts in reducing corruption in the country. The country's economic policies have led the economy towards technological progress. There has been large scale migration of population from the rural to the urban areas. The nation has also witnessed massive development of the urban based social security system. The overall socio-cultural picture looks conducive for establishing new operations in the country (Peng, 2007).

### **Technological**

China has been demonstrating rapid growth in technology as well. It has also been importing technology from foreign firms. There has been modernization in the fields of technology and communication. The " China Aviation Industry

Corporation (AVIC)” (Nakajie, 2011) is an enterprise which is owned by the state and is responsible for managing various units out of which aviation is an important one. It applies the latest technology for supporting the industry. It is considered to be one of the leading companies in the field of science and technology. It makes extensive investment in research through 33 research institutes. The technology lent to the aviation companies in China are primarily conducted by a large team of experts and academicians. This is one of the factors behind the production of the latest technology in China on which many of the aviation companies thrive (Nakajie, 2011).

### **Porters Five Forces**

The task confronting the managers of the company would be to analyze the competitive environment of the company. This is done using Porter’s Five Forces Model. This analysis helps to identify the relevant opportunities and threats confronting the company. As presented by porter, the five forces that shapes the competition faced by an industry are

The risk of entry of competitors,

The intensity of rivalry existing between the established firms in the industry,

Bargaining power of suppliers,

Bargaining power of buyers, and

Closeness of substitutes to the company’s products (Hill & Jones, 2009, p. 43).

The following figure depicts the Porter's Five Forces Model.

Figure 2: Porter's Five Forces Model

**(Source: Hill & Jones, 2009, p. 43)**

Some of the major airlines operating in China are Air China, China Eastern Airlines, and China Southern Airlines etc. Thus, it is apparent that Ryanair would have to fight against the potential competition existing in the area. Since 2003, the nation has demonstrated a dramatic improvement in the number of airlines operations. It shows that the industry has been flourishing of late. Some of the other competitors that the company would have to face are Changan Airlines, Yunnan Airlines, Sicchuan Airlines, Shanxi Airlines, Shanghai Airlines and Hainan Airlines (Bounova, et al, 2006). Some of the important foreign companies that would give tough competition to Ryanair are US Airways Group Inc. and Delta.

The existence of numerous airlines companies in the nation results in their heavy reliance on international suppliers. " China's Xian Aircraft Co. makes the some 737 vertical fins, and Japan's Mitsubishi Heavy Industries provides the wing's inboard flaps" (mscbc. com, 2010). Majority of the companies are said to be importing various components from the US soil. Thus, it is apparent that the bargaining power of suppliers would also remain high.

The China airlines industry has shown tremendous growth in its traffic in the year 2010. The increased number of airlines users therefore shows that the bargaining power of buyers would also remain high. This is especially relevant in terms of the flight fairs. Extensive competition results in the

airlines keeping their airfares low. Thus, if Ryanair has to survive it would have to do so amidst extensive competition and through low airfares. Airfares should be competitive enough to help the company maintain a competitive edge in the market.

The number of passenger flights between the United States and China are supposed to increase significantly by 2012. This would set the stage for intense competition in the field. As per the reports produced by the Associated Press, the country has achieved tremendous success through the breakthrough agreements which has created the way for frequent, affordable and convenient flight services between United States and China. Among some of the top rivals, Continental Airlines Inc., UAL Corp's United Airlines and AMR Corp's American Airlines can be mentioned(China Highlights, 2007).

## **Generic Strategy**

Generic strategy is to be chosen by RyanAir by first weighing the various options in front of the company and then the consequent choice of one option most suited for its environment. The company has to establish itself and survive among the five competitive forces (Porter, 1980, p. 35). The Generic strategy that would be suitable for the company for establishing operations in the Chinese market has been presented with the help of the Ansoff Matrix and The Nine Strategic Windows. Since, the company has not operated in China; the generic market entry strategy would be based on the company's present strengths. It would also have to choose a favorable industry segment. It is recommended that the company avoids direct competition as the market is already flooded with fierce competitors. Finally,

it must choose a control system and structure which would allow the global operations strategy to efficiently operate at the international level (Levi, 2007, p. 61).

### **Ansoff Matrix**

As per the Ansoff' growth and expansion strategy, Ryanair can undertake the market development strategy, which would mean it would have to develop new markets for its present services. The following diagram would help to understand the Ansoff's matrix.

Figure 3: The Ansoff's Matrix

### **(Source: Campbell & Craig, 2005, p. 105)**

The market development strategy of Ryanair would be to place its existing services in the Chinese market. Market development involves development of new markets for the current services produced by the company. In this case, it would necessarily be a low fare strategy. The international airlines operating in China have also been growing fast. This is demonstrated by the following diagram.

Figure 4: Chinese Airlines Development

### **(Source: Airline Network News and Analysis, 2011)**

The target market should be the people belonging to the middle income group. Previously, the flight fares used to be extremely high and therefore the flight services could be availed only by the high income group in the population. However, with the GDP growth, the general standard of living all



across the world has increased. With this more and more people can now afford the services. Moreover, flight fares have also shown a gradual decrease over the years. With the majority of the population falling in the middle income groups of the population, it is recommended that Ryanair should target the same as well. Thus, it would primarily mean keeping the flight fares low and competitive target towards the masses.

## **The Nine Strategic Windows**

The generic strategy of the company has been elaborated using the nine strategic windows as presented by Solberg. The window is primarily useful in deciding whether the company should decide to internationalize.

Figure 5: Nine Strategic Windows

**(Source: Hollensen, 2009, p. 6)**

### **Industry Globalism**

In principle, the company cannot decide the degree to which it would internationalize. It is based on the marketing environment which is present in the international market. The strategic behavior of the firm would depend on the competitive structure of the industry in the international market. In case the extent of industry globalism is very high, it is found that the interdependencies between different factors also remain high.

Interdependencies exist between different markets, suppliers and customers and the market remains dominated by a number of large players (Hollensen, 2009, p. 6). In this case, the big players already operating in the market are US Airways Group Inc. and Delta.

## **Preparedness for Internationalization**

The condition of the firm decides this dimension. The extent to which Ryanair is prepared for taking international strategies is primarily based on its abilities to pursue those activities in the marketplace. Some of the personal capabilities and skills would be cultural sensitivity, language etc. The financial resources available or the company's experiences in its international endeavors would also play a major role. A company which is well prepared and mature, is likely to dominate in the international market and consequently gain greater share of the market (Hollensen, 2009, p. 6). As per the condition of the company, it is in a mature phase to internationalize. It is also in a position to strengthen the company's global position. Thus, it would fall in the ninth quadrant of the grid depicting the company's abilities to strengthen its market position. The major factors which can pose a threat to the company is the escalation in fuel costs over the years, the intensity of competition that already existing in Britain and Europe and at times unfavorable attitudes from the regulatory bodies in Ireland, Britain and the European Union. The following figure demonstrates the company's fleet growth plan.

Figure 6: Ryanair- Fleet Growth Plan

### **(Source: Centre for Asia Pacific Aviation, 2008)**

Ryanair's operations in China would be primarily targeted at the middle income group in society. The predominant mode of promotion would be advertising through the electronic media, say the internet and the television. Ryanair's must go for wide media coverage emphasizing on its low price of

tickets. However, advertising should not be based on making direct comparisons or attacking the competitors. This is because it has been accused of doing so in earlier phases. Advertisements should not be misleading and should be committed to the promises that the company makes. Choosing the right destination should be a major aspect of the company's strategy. The routes should be chosen while ensuring the fact there are less number of flights operating in that place. It would be crucial to make an evaluation of the demand of the different places before choosing the destination. The company must provide great emphasis on its customer service strategies. Catering to the customer's needs and requirements would be one of the ways of earning goodwill and reputation. Passengers using the flights should be given the proper guidelines and information and they must be rest assured that their travel experience would be safe and free of hurdles. Ryanair should also connect with its customers through web forms and emails. Special attention should be given to enhance employee relations in the company. Employees must be given the proper working conditions and remunerations. Work schedules should be fixed and based on shifts. Moreover, the company should not allow unionism. In other words, the human resource strategies should be such that it would enhance employee relations and productivity in the organisation.

## **Conclusion**

It is seen that Ryanair's key strength lies in its efforts to maintain a successful low cost strategy in the market. This would also account for the main basis on which it would expand operations in the Chinese market. The

external macroeconomic environment also looks conducive for conducting operations. The presence of a large population and large customer base would provide the substantial demand for its services. However, it is found that there are a large number of major players already existing in the market like US Airways Group Inc. and Delta. This would pose significant competition for the company. It is also to be noted that the fuel prices have been rising all over the globe and the situation is same in China. As per the Ansoff's Matrix, the company should undertake the market development strategy in which the services would remain the same while the market would have to be developed. For this strategy, it is suggested that the middle income group of the population must be targeted as this accounts for a large proportion of the population. Finally, the nine strategic windows present the company's preparedness for internationalization. It is seen that with its present condition, the company could effectively set up operations to strengthen its global presence. This would be complimented by the huge demand for low fares flights in China and the existence of a substantial customer base.

## **Personal Reflections**

Developing measurable objectives account for one of the most important actions that could be undertaken for ensuring that the programs or projects are aligned to generate results. The first lesson that was gained was to cater to the aims of the study. The entire project was undertaken keeping the objective in focus and it was also ensured that all activities undertaken for the purpose was aligned to the same. The second most crucial lesson learnt from the process was catering to the instructional objectives. As per the

instructions for the study, the project required extensive research and data collection. The main quality aspect of the project revolved around the fact that instructions were met and the data collected and analyzed was catered to the same. The project allowed very little room for diversion from the main track as it provided strict guidelines for the process. Also, the guidelines were backed by a fixed number of hours during which it had to be completed. Thus, another learning outcome of the project was the delivery of the output based on time constraints and instructional guidelines. The project also helped to develop the application objectives. Since it is a strategic management project, focusing on the strategy of Ryanair to expand operations in the Chinese market as a global strategy, it required extensive use of tools and theories. It helped to realize the requirements of the tools and their application at the right place. It required understanding of the requirements of the project and the outcome that it aimed to bring about. This required application of the right tools at the right place and finally analyzing the results that was brought forth. Being a strategic management project, it has helped to develop analytical skills from the study. Moreover, it has helped to gain theoretical knowledge and understanding of the study. A study of the future prospects and strategies of Ryanair has definitely been useful in enhancing knowledge about the business and its ongoing operations which would prove to be useful for the further projects to come.

Improvement is required in prior planning of the objectives. It is important to plan the project beforehand and set small objectives. The best way of

completing the project is to set small objectives and allocate time for each activity. It must be ensured that every activity is directed towards attainment of the project aims and objectives. Moreover, the small activities should not be lagging behind and should follow guidelines and instructions. In case one particular activity lags behind, then the overall structure must be altered keeping the primary objective fixed. The main objective must never be altered. Another learning outcome was the participation in the learning opportunity. The project provided a learning platform which was beneficial for uplifting the existing knowledge in the subject. Subjective and domain knowledge has been enhanced through the participation in the study. It has provided the right opportunity to learn, practice and explore with other colleagues.